

**STATE OF ILLINOIS
EASTERN ILLINOIS UNIVERSITY**

**FINANCIAL AUDIT
For the Year Ended June 30, 2008**

Performed as Special Assistant Auditors for the
Auditor General, State of Illinois

**EASTERN ILLINOIS UNIVERSITY
FINANCIAL AUDIT
For the Year Ended June 30, 2008**

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EASTERN ILLINOIS UNIVERSITY

UNIVERSITY OFFICIALS

President	Dr. William L. Perry
Provost and Vice President for Academic Affairs	Dr. Blair M. Lord
Interim Vice President for Business Affairs (1/1/09 to present)	Mr. Paul McCann, CPA
Vice President for Business Affairs (7/1/07 to 12/31/08)	Mr. Jeffrey L. Cooley, CPA
Vice President for Student Affairs	Dr. Daniel P. Nadler
Vice President for External Relations	Dr. Jill F. Nilsen
Interim Director of Business Services and Treasurer (1/1/09 to present)	Ms. Linda Holloway
Director of Business Services and Treasurer (7/1/07 to 12/31/08)	Mr. Paul A. McCann, CPA
Director of Accounting & Finance and Assistant Director of Business Services (12/1/08 to present)	Vacant
Director of Accounting & Finance and Assistant Director of Business Services (7/1/07 to 11/30/08)	Mr. Larry G. Cannon
General Counsel	Mr. Robert L. Miller
Director of Internal Auditing (7/22/08 to present)	Ms. Sharon McRaven, CPA, CIA
Acting Director of Internal Auditing (4/1/07 to 7/21/08)	Ms. Rebecca L. Litton

University offices are located at:

600 Lincoln Avenue
Charleston, Illinois 61920

EASTERN ILLINOIS UNIVERSITY FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying financial statements of Eastern Illinois University was performed by E.C. Ortiz & Co., LLP.

Based on their audit, the auditors expressed an unqualified opinion on the University's basic financial statements.

SUMMARY OF FINDINGS

The auditors identified matters involving the University's internal control over financial reporting that they considered to be significant deficiencies. The significant deficiencies are described in the accompanying Schedule of Findings on pages 61 to 64 of this report, as findings 08-1 (Inadequate control over bank reconciliations) and 08-2 (Draft financial statements not completed timely).

EXIT CONFERENCE

The findings and recommendations appearing in this report were discussed with University personnel at an exit conference on February 2, 2009. Attending were:

Eastern Illinois University

Paul McCann, Interim Vice President for Business Affairs

Linda Holloway, Interim Director for Business Services and Treasurer

Monty Bennett, Director of Procurement, Disbursement and Contract Services

Mihir Chatterji, Assistant Vice President for Information Technology Systems

Sharon McRaven, Director of Internal Auditing

Rebecca Litton, Internal Auditor III

Michael Hutchinson, Interim Assistant Comptroller

Tami Babbs, Interim Assistant Comptroller

Auditor General

Jon Fox, Audit Manager

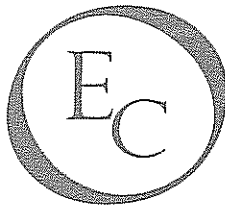
E. C. Ortiz & Co. LLP

Edilberto Ortiz, Partner

Marites Sy, Partner

Shirley Trinidad, Manager

The response to the recommendation was provided by Paul McCann in a letter dated March 1, 2009.



E.C. ORTIZ & CO., LLP
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

Honorable William G. Holland
Auditor General
State of Illinois

and

The Board of Trustees
Eastern Illinois University

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of Eastern Illinois University (University) and its aggregate discretely presented component units, collectively a component unit of the State of Illinois, as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative information has been derived from the University's June 30, 2007 financial statements and, in our report dated March 28, 2008, we expressed an unqualified opinion on those financial statements. We did not audit the financial statements of the aggregate discretely presented component units, as described in Note 1 of the financial statements, which represent 100% of the transactions and account balances of the aggregate discretely presented component units' column. Those statements were audited by other auditors whose report thereon has been provided to us, and our opinion on the financial statements, insofar as it relates to the amounts included for the aggregate discretely presented component units, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of

Eastern Illinois University and its aggregate discretely presented component units as of June 30, 2008, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 20, 2009 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 5 through 16 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Eastern Illinois University's basic financial statements. The accompanying supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information, as listed in the table of contents, has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

In connection with our audit, nothing came to our attention that caused us to believe that the Eastern Illinois University Auxiliary Facilities System was not in compliance with any of the fund accounting covenants of the Resolutions of the Eastern Illinois University Auxiliary Facilities System Revenue Bonds (Series 2000, 2005, and 2008).

E. C. Ortiz & Co., LLP

April 20, 2009

EASTERN ILLINOIS UNIVERSITY MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Eastern Illinois University (the University) annual financial report presents management's discussion and analysis (MD&A) of the financial performance of the University during the fiscal year ended June 30, 2008 with comparative information for the year ended June 30, 2007. This discussion should be read in conjunction with the accompanying financial statements and footnotes. The financial statements, footnotes and this discussion are the responsibility of the University's management.

Reporting Entity

Eastern Illinois University is an institution of higher education and is considered to be a component unit of the State of Illinois because the Governor of the State of Illinois appoints its Board of Trustees. Accordingly, the University is included in the State's financial statements as a discrete component unit. Transactions with the State of Illinois relate primarily to appropriations for operations, grants from various State agencies, funding of capital projects and payments for employee benefits.

The University is a comprehensive, regional service institution located in Charleston, Illinois on approximately 320 acres. The University consists of 72 buildings, including 12 residence halls and 17 apartment buildings. The University enrolls approximately 11,000 students and employs approximately 1,750 full time faculty and staff. The University is primarily an undergraduate institution. Originally established in 1895 as a teachers' college, today the University encompasses four colleges and a graduate school. Undergraduate degrees are offered through the College of Arts and Humanities, the College of Business and Applied Sciences (which includes the School of Family and Consumer Sciences and the School of Technology), the College of Sciences and the College of Education and Professional Studies. Master degrees, and in some cases specialist degrees, are offered at the graduate level in each of the colleges. In addition to its on-campus programs, the University maintains a strong continuing education program.

Using the Annual Report

These financial statements are prepared in accordance with guidance found in the statements issued by the Governmental Accounting Standards Board (GASB), including GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*; GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*; GASB Statement No. 37, *Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments: Omnibus*; GASB Statement No. 38, *Certain Financial Statement Note Disclosures*; and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. These statements focus on the financial condition of the University, the results of operations and cash flows of the University as a whole.

EASTERN ILLINOIS UNIVERSITY MANAGEMENT'S DISCUSSION AND ANALYSIS

As prescribed by GASB Statement No. 35, this annual report includes three financial statements: the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; and the Statement of Cash Flows. The financial statements encompass the University and its discretely presented component units. The Combining Statements of Net Assets; Combining Statements of Revenues, Expenses and Changes in Net Assets; and Combining Statements of Cash Flows show the combining of the discretely presented component units and are not discussed in this MD&A. The accompanying notes to the financial statements provide more detailed information regarding the items presented on the face of the financial statements. Information regarding these component units, including their separately issued financial statements, is summarized in Note 1 to the financial statements. This MD&A focuses on the University excluding the discretely presented component units. MD&A for these component units is included in their separately issued financial statements. An explanation of the financial statement presentation follows.

The Statement of Net Assets reflects the assets and liabilities of the University using the accrual basis of accounting and presents the financial position of the University at a specified point in time. The difference between total assets and total liabilities, known as net assets, is one indicator of the current financial condition of the University. The increase or decrease in net assets that occur over time indicate the improvement or erosion of the University's financial condition.

The Statement of Revenues, Expenses and Changes in Net Assets presents the revenues earned and expenses incurred during the fiscal year. Revenues and expenses are reported as either operating or nonoperating. Under the current reporting model, a significant portion of the University's revenue is considered nonoperating. State and capital appropriations of \$51,846,535 and payments on behalf of the University of \$31,652,439 are reported as nonoperating revenues and results in the University showing an operating loss of \$75,686,140 for the year ended June 30, 2008.

The Statement of Cash Flows presents information related to cash inflows and outflows summarized by operating, noncapital financing, capital and related financing and investing activities.

Financial Highlights

During the year ended June 30, 2008, the University's net assets increased by approximately \$12.1 million to \$171 million. This increase is primarily due to an increase in student tuition and fees, an increase in grant revenues, and an increase in auxiliary enterprise revenues.

During the fiscal year ended June 30, 2008, the University issued \$18.6 million of Revenue Bonds, to current refund all of the Auxiliary Facilities System Revenue Bonds, Series 1998 that mature on or after October 1, 2008.

**EASTERN ILLINOIS UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Statement of Net Assets

Condensed Statement of Net Assets, as of June 30,

	<u>2008</u>	<u>2007</u>
Assets		
Current assets	\$ 50,063,703	\$ 57,526,934
Noncurrent assets		
Capital assets, net	206,552,679	195,293,070
Other	9,127,463	5,976,177
Total noncurrent assets	<u>215,680,142</u>	<u>201,269,247</u>
Total assets	<u>\$ 265,743,845</u>	<u>\$ 258,796,181</u>
Liabilities		
Current liabilities	\$ 23,387,984	\$ 22,937,424
Noncurrent liabilities	<u>71,312,649</u>	<u>76,953,568</u>
Total liabilities	<u>94,700,633</u>	<u>99,890,992</u>
Net Assets		
Invested in capital assets, net	150,147,682	140,663,716
Restricted		
Nonexpendable	548,808	583,362
Expendable	18,186,901	19,396,980
Unrestricted	<u>2,159,821</u>	<u>(1,738,869)</u>
Total net assets	<u>171,043,212</u>	<u>158,905,189</u>
Total liabilities and net assets	<u>\$ 265,743,845</u>	<u>\$ 258,796,181</u>

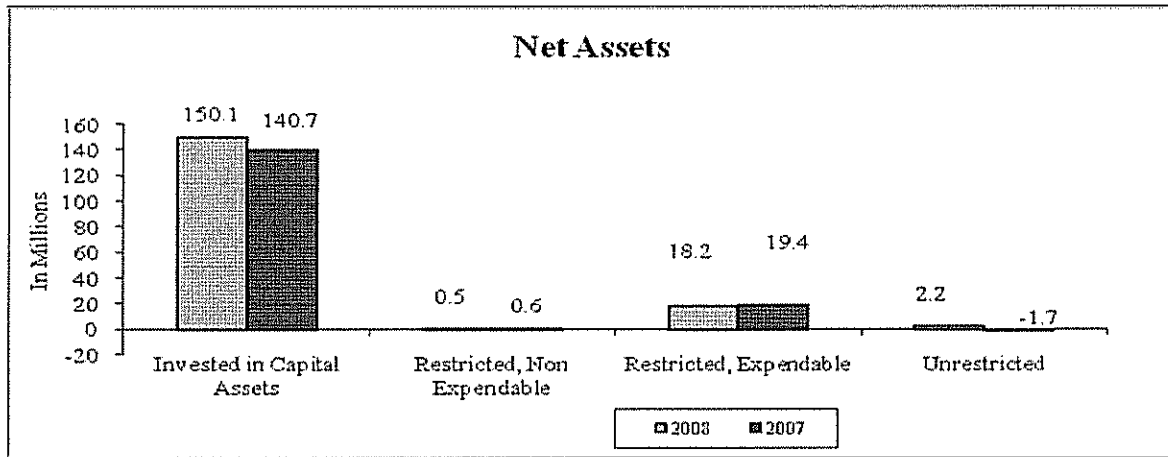
University assets totaled nearly \$265.7 million as of June 30, 2008. The largest asset of the University is its investment in land, buildings and equipment which totaled approximately \$206.6 million for 2008. In fiscal year 2008, cash and cash equivalents decreased by approximately \$10 million to approximately \$34.3 million due to money being spent for the completion of Doudna Fine Arts Center, as well as higher student accounts receivable.

University liabilities totaled approximately \$94.7 million as of June 30, 2008. Long-term debt of approximately \$57.8 million as of June 30, 2008, which consisted of notes, leases and bonds payable and Certificates of Participation, is the largest portion of the liability.

**EASTERN ILLINOIS UNIVERSITY
MANAGEMENT’S DISCUSSION AND ANALYSIS**

The University’s current assets of approximately \$50 million as of June 30, 2008 were sufficient to cover the current liabilities of approximately \$23.4 million as of June 30, 2008. The current ratio of current assets to current liabilities is 2.14 in current assets for every \$1 in current liabilities for fiscal year 2008.

The following graph shows net assets by classification and restriction:



Capital Assets and Related Financing Activities

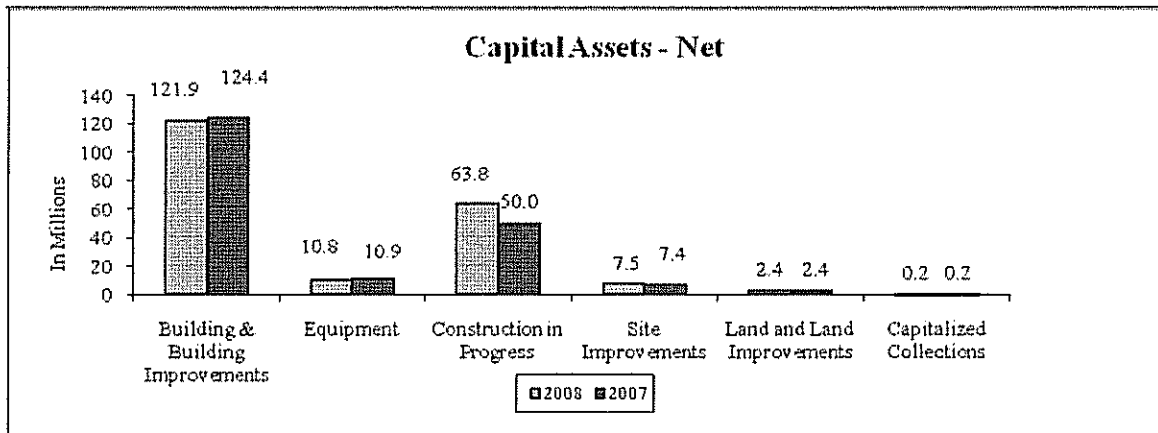
The Eastern Illinois University facilities include 72 buildings totaling about 3 million gross square feet. Funding from State, private, borrowed, and internal sources are used to accomplish the capital objectives of the University.

The University continues to expand and renovate its campus facilities. University capital additions totaled approximately \$23.4 million for fiscal year 2008. The additions included ongoing renovations to the Doudna Fine Arts building, as well as sprinkler installations in the residence halls. The expected cost for the remodeling project for the Doudna Fine Arts Center funded by the Capital Development Board, is approximately \$54 million which includes about \$7.1 million in furnishings.

The University had approximately \$36.8 million of bonded debt outstanding and \$20.6 million of Certificates of Participation outstanding as of June 30, 2008. For more information concerning Capital Assets, Construction in Progress, Bonds Payable, Lease Obligations, and COPS Payable see Notes 6, 7, 10, 11, 12 and 13.

**EASTERN ILLINOIS UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following chart shows the breakdown of the University's capital assets, net of depreciation, by category:



Statement of Revenues, Expenses and Changes in Net Assets

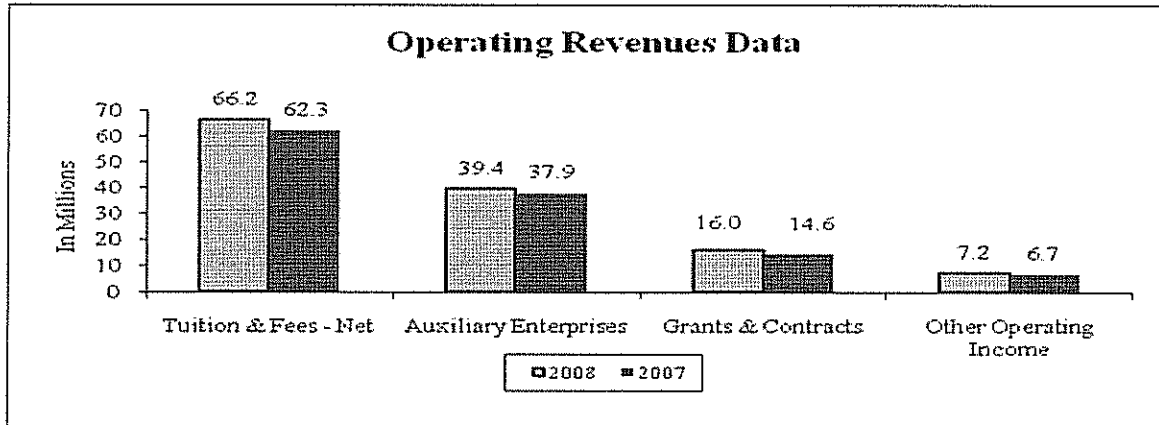
Condensed Statement of Revenues, Expenses and Changes in Net Assets
For the years ended June 30,

	2008	2007
Operating revenues		
Tuition and fees, net	\$ 66,225,748	\$ 62,305,638
Grants and contracts	16,018,262	14,596,831
Auxiliary enterprises	39,416,747	37,943,403
Other operating revenues	7,169,511	6,713,699
Total operating revenues	128,830,268	121,559,571
Operating expenses	204,516,408	192,904,969
Operating loss	(75,686,140)	(71,345,398)
Nonoperating revenues (net of expenses)		
State appropriations	49,189,200	48,282,450
Payments on behalf of the University	31,652,439	27,545,752
Other nonoperating revenues - net	1,563,485	5,847,321
Net nonoperating revenues	82,405,124	81,675,523
Income before capital contributions	6,718,984	10,330,125
Capital appropriations	2,657,335	402,505
Transfers from Capital Development Board	2,455,532	17,688,297
Capital grants and gifts	306,172	476,306
Total increase in net assets	12,138,023	28,897,233
Net assets, beginning of year	158,905,189	130,007,956
Net assets, end of year	\$ 171,043,212	\$ 158,905,189

**EASTERN ILLINOIS UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Operating Revenues

Operating revenues for fiscal years 2008 totaled \$128.8 million. The most significant source of operating revenues were tuition and fees, grants and contracts, and auxiliary services as shown in the graph below:



State appropriations to the University increased during fiscal year 2008 by \$0.9 million. During fiscal year 2005, the "Truth in Tuition" regulations took affect (a first time attendee is guaranteed the same tuition rate for four years as long as they are undergraduates). Because of this, tuition rates were increased by 12% for new students and approximately 7.5% for continuing students in both fiscal years 2008 and 2007. The University also implemented a student fee increase of 5.6% in fiscal year 2008. This, coupled with an enrollment increase of approximately 1% in fiscal year 2008, accounted for the increase in tuition, fees and housing revenues.

Tuition and Fees

The University's tuition and fees has consistently been one of the lowest out of the twelve state universities in Illinois. It is currently only one of two public universities to continue to offer textbook rental as a service to students, rather than requiring students to spend hundreds of dollars for textbooks each year. The following explains the rates for tuition and fees for a student attending 12 or more hours during the Fall and Spring semesters of fiscal years 2008 and 2007.

	2008	2007
Full-time Undergraduates		
In-State		
Continuing Non-guaranteed	\$158.65/hour + \$940.09 fees/semester	\$147.55/hour + \$890.39 fees/semester
New student FY06	\$154.30/hour + \$940.09 fees/semester	\$154.30/hour + \$890.39 fees/semester
New student FY07	\$173.55/hour + \$940.09 fees/semester	\$173.55/hour + \$890.39 fees/semester

**EASTERN ILLINOIS UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

	2008	2007
In-State		
New student FY08	\$194.40/hour + \$1,016.05 fees/semester	
Out of State		
Continuing Non-guaranteed	\$475.95/hour + \$940.09 fees/semester	\$442.65/hour + \$890.39 fees/semester
New students FY06	\$462.90/hour + \$940.09 fees/semester	\$462.90/hour + \$890.39 fees/semester
New students FY07	\$520.65/hour + \$940.09 fees/semester	\$520.65/hour + \$890.39 fees/semester
New students FY08	\$583.20 hour + \$1,016.05 fees/semester	
Full-time graduates		
In State		
In State	\$189.75/hour + \$942.09 fees/semester	\$169.40/hour + \$891.99 fees/semester
New students	\$189.75/hour + \$1,018.05 fees/semester	
Out of State		
Out of State	\$569.25/hour + \$942.09 fees/semester	\$508.20/hour + \$891.99 fees/semester
New students	\$569.25/hour + \$1,016.05 fees/semester	

Room and Board

The University currently has 12 traditional residence halls and a village of fraternity and sorority residences ("Greek Court"), with a capacity of approximately 4,700 students. In addition, there are 154 married and graduate student apartments ("University Apartments") and 146 undergraduate apartment units in 11 buildings ("University Court"). For Fall 2007, the residence halls were 83% occupied; the University Apartments were about 97% occupied; and the University Court was 99% occupied.

The following table outlines the rates charged for room and board:

	2008	2007
University Apartments		
Efficiency	\$400/month	\$389/month
One bedroom	\$421/month	\$409/month
Super efficiency	\$375/month	\$364/month
University Court		
	Rates vary from \$2,197 to \$2,937/semester	Rates vary from \$2,093 to \$2,824/semester

**EASTERN ILLINOIS UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

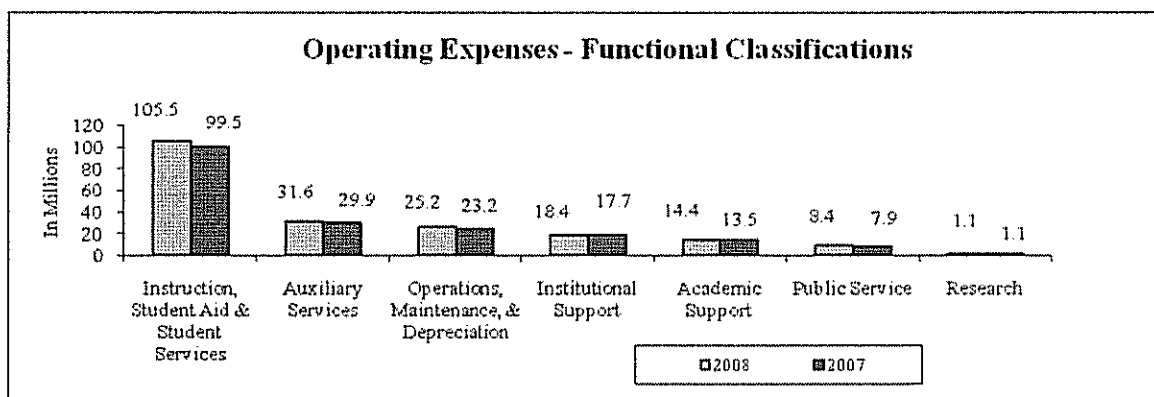
	2008	2007
Residence Halls		
7 plus meal plan	\$3,161/semester	\$2,955/semester
10 plus meal plan	\$3,301/semester	\$3,086/semester
12 plus meal plan	\$3,426/semester	\$3,203/semester
15 plus meal plan	\$3,562/semester	\$3,330/semester

The Plus Meal Option permits each student the flexibility to make purchases at various campus locations, including the following:

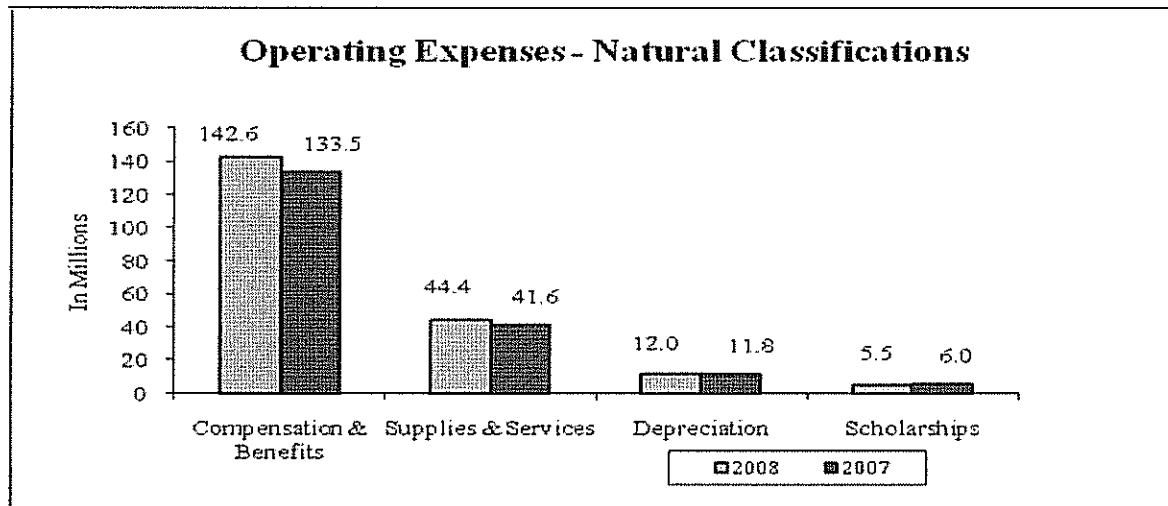
- Any residence hall dining center
- Purchases at the food court within the University Union
- Purchases at campus convenience centers

Operating Expenses

GASB Statement No. 35 gives the reporting entities the choice of reporting expenses in functional or natural classifications. The University chose to report the expenses in their functional categories on the face of the statement and has displayed the natural categories in the footnotes to the financial statements. The operating expenses for fiscal year 2008, including depreciation of \$12 million, totaled \$204.5 million. Under the functional classifications, \$105.5 million or 52% was used for instruction, student aid, and student services; \$31.6 million, or 15% was used for auxiliary services; \$25.2 million, or 12% was for operations and maintenance of plant, and depreciation; \$18.4 million, or 9% was used for institutional support, which includes such areas as computer services and University police; and \$14.4 million, or 7% was used for academic support, for such areas as the library and various dean's offices. Under the natural classifications, \$142.6 million, or 70% was used for compensation and benefits; \$44.4 million, or 22% was used for supplies, contractual services, utilities, travel, repairs and maintenance and other; \$5.5 million, or 3% was used for scholarships; and \$12 million, or 6% was depreciation.



**EASTERN ILLINOIS UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS**



Other

The State appropriation was the largest source of nonoperating revenues at \$49.2 million in fiscal year 2008.

Interest expense on outstanding debt was \$2.6 million for fiscal year 2008, and is the largest category of nonoperating expenses.

Statement of Cash Flows

The Statement of Cash Flows provides information about the University's sources and uses of cash and cash equivalents during the fiscal year.

Condensed Statement of Cash Flows
For the Years Ended June 30,

	2008	2007
Cash provided by (used in):		
Operating activities	\$ (37,247,753)	\$ (28,705,768)
Noncapital financing activities	51,634,594	51,151,125
Capital and related financing activities	(24,149,941)	(14,276,440)
Investing activities	(212,016)	8,382,488
Net increase (decrease) in cash and cash equivalents	(9,975,116)	16,551,405
Cash and cash equivalents, beginning of year	44,243,245	27,691,840
Cash and cash equivalents, end of year	\$ 34,268,129	\$ 44,243,245

EASTERN ILLINOIS UNIVERSITY MANAGEMENT'S DISCUSSION AND ANALYSIS

Major sources of funds included in operating activities are student tuition and fees, and auxiliary services. Student tuition and fees provided \$66.7 million for 2008. Auxiliary enterprises income provided \$35.1 million for 2008. The major source of funds included in noncapital financing activities is state appropriations which provided \$49.2 million for 2008.

The net cash used in capital and related financing activities represents numerous purchases of capital assets as well as costs incurred for many campus construction projects in progress.

The net cash used by investing activities of \$0.2 million in fiscal year 2008 is due to the purchase of investments.

The University's Economic Outlook

The State of Illinois (State) General Fund appropriation represents a significant, but decreasing, portion of operating support for University programs. State General Fund appropriations represented approximately 27% of the University's operating budget in 2008, 28% in 2007 and 30% in 2006. After several years of flat appropriations, the General Assembly increased the State General Fund appropriation for the University in fiscal year 2009 by approximately \$1,377,000 (2.8%), \$907,000 (1.9%) in 2008 and \$673,300 (1.4%) in fiscal year 2007. Although the University's operating budget continues to grow, we project that the State's share of funding will continue to decline. The University will strive to manage tuition levels to meet its mission of superior, accessible education.

In 2003, Public Act 93-0228 was enacted. This act placed a limitation on increases in tuition at Illinois public institutions of higher education. For students that initially enroll in the University after the 2003-04 academic year, the tuition charged to an undergraduate student can not increase, above the amount charged when the student enrolled, for 4 continuous academic years, with limited exceptions. Consequently, the University must establish a tuition rate for incoming students that takes into account all potential cost increases and the rate of inflation. For the Fall semester of 2008, the University increased tuition for incoming students by 12.1% over the rate paid by students starting in the Fall of 2007. A similar increase is projected for the Fall of 2009.

It is the plan of the University to maintain a stable enrollment of approximately 12,000 students. The University had a Fall, 2007 enrollment of 12,179. The Fall, 2008 enrollment decreased by 1.1% to 12,040. The University does not anticipate any change to the plan in the foreseeable future. Likewise, it is the University's plan to maintain stable occupancy in University owned housing. In Fall, 2007, the University had 4,362 students in University owned housing. In Fall, 2008, students living in University owned housing decreased by 2.1% to 4,272.

EASTERN ILLINOIS UNIVERSITY MANAGEMENT'S DISCUSSION AND ANALYSIS

University owned housing rates are not under the same limitations as tuition. However, they are limited by rates charged in the local housing market for similar accommodations. All Freshman are required to live in University owned housing, and all other students are encouraged to live there, because it has been the University's experience that students living in University owned housing graduate at a higher rate and with higher grade point averages. For the Fall semester of 2008, the typical room and board rate for a full time student was \$3,516. For the Fall semester of 2009, the typical room and board rate will increase by 6.5% to \$3,743.

On November 8, 2006, the Board of Trustees approved a four year contract with the University Professionals of Illinois (UPI) Local 4100 (the Union representing University Faculty members) that was retroactive to September 1, 2006. The contract provides bargaining unit members with annual across the board salary increases that average approximately 3.2% over the term of the agreement and other benefits. UPI represents almost 600 faculty members on campus and is the single largest union representing employees on campus. On September 15, 2006, the Board of Trustees approved a three year agreement with the American Federation of State, County and Municipal Employees (AFSCME) Local 981 (the Union representing University clerical employees) that was retroactive to July 1, 2006. The contract provides bargaining unit members with annual across the board salary increases of 3% over the term of the agreement and other benefits. The AFSCME clerical employees unit represents about 150 employees on campus. In addition, on November 21, 2008, the Board of Trustees approved a three year agreement with the American Federation of State, County and Municipal Employees (AFSCME) Local 981 (the Union representing University service employees) that was retroactive to September 15, 2008. The contract provides bargaining unit members with annual across the board salary increases of 3% over the term of the agreement and other benefits. The AFSCME service employees unit represents about 175 employees on campus.

The Doudna Fine Arts Center opened in the Fall of 2008 after five years of construction and renovation. The \$63 million plus project, which was a joint project with the Illinois Capital Development Board, has generated a tremendous amount of excitement within the academic and cultural communities and will be a great asset to the State and University. The Capital Development Board is investing another \$4 million upgrading the campus' electrical distribution system. In addition, the University is involved in a ten year plan to renovate the residence halls on campus. The cost for these renovations is projected to be in excess of \$75 million and will be paid totally from student room and board fees. In December, 2008, the University issued \$4,230,000 of revenue bonds to construct a new Textbook Rental Service Facility on campus. The state of the art facility will enhance the textbook rental process. The bonds will be paid for by a special \$1 per credit hour fee approved by the students.

The original Steam Plant structure was built in the 1920's and still uses some of the original coal handling equipment. Coal-fired water tube boilers built in the 1950's, and housed in the Steam Plant, are currently being used to heat and cool the University. In

**EASTERN ILLINOIS UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

2008, repairs to the legacy coal handling equipment and the coal boilers cost the University an estimated \$286,000 to correct and \$340,000 in excess expenditures for natural gas. Due to the complete failure of the plant's scrubber equipment, the University is not able to burn high-sulfur Illinois coal. Therefore, the University is required to purchase higher cost low-sulfur coal from a source outside of the State of Illinois. Due to the age of the plant and the significant advancements made in technology over the last 80 years, the University estimates that replacing the plant would be the most economical way to proceed. The University is requesting money from the State of Illinois to fund the project.

Private gifts are an important source of funding for University operations. In association with The Eastern Illinois University Foundation, fundraising in fiscal 2008 hit a new high, over \$6.7 million was raised in gifts and additions to the endowment. With public financing representing a smaller portion of the University's budget, private philanthropy will continue to grow in importance. It is the University's intention to maintain the level of giving achieved and to look for opportunities to attract additional donors and gifts.

EASTERN ILLINOIS UNIVERSITY
STATEMENT OF NET ASSETS
AS OF JUNE 30, 2008
(With Comparative Totals for 2007)

	University		Component Units	
	2008	2007	2008	2007
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 16,186,353	\$ 17,602,144	\$ 640,003	\$ 651,736
Restricted cash and cash equivalents	18,081,776	26,641,101	3,255,125	2,206,773
Short-term investments	-	463,041	557,274	673,414
Restricted short-term investments	20,963	568,760	1,908,315	1,948,651
Accounts receivable, net of allowance for doubtful accounts	12,264,930	9,405,044	216,401	181,960
State appropriation receivable	-	115	-	-
Interest receivable	36,144	9,013	12,276	11,885
Inventories	1,711,897	1,567,960	-	-
Notes receivable, current portion, net of allowance for doubtful accounts	905,059	880,163	-	-
Other assets	856,581	389,593	1,636	27,797
Total current assets	50,063,703	57,526,934	6,591,030	5,702,216
Noncurrent assets:				
Restricted cash and cash equivalents	-	-	130,110	216,085
Notes receivable, less current portion, net of allowance for doubtful accounts	5,242,836	5,107,154	-	-
Endowment investments	548,808	583,363	32,093,418	26,292,481
Restricted investments	1,810,568	-	19,861,544	24,739,367
Other long-term investments	1,178,647	-	740,992	596,637
Other long-term assets	346,604	285,660	242,943	337,585
Capital assets, net of accumulated depreciation	206,552,679	195,293,070	2,169,402	2,204,044
Total noncurrent assets	215,680,142	201,269,247	55,238,409	54,386,199
TOTAL ASSETS	\$ 265,743,845	\$ 258,796,181	\$ 61,829,439	\$ 60,088,415
LIABILITIES AND NET ASSETS				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 13,081,432	\$ 11,828,311	\$ 17,788	\$ 22,498
Deferred revenues	2,625,941	2,862,986	-	-
Long-term liabilities, current portion	7,680,611	8,246,127	308,211	296,197
Demand mortgage payable	-	-	1,437,238	1,512,238
Total current liabilities	23,387,984	22,937,424	1,763,237	1,830,933
Noncurrent liabilities:				
Long-term liabilities, less current portion	65,586,222	71,332,092	960,825	1,129,275
Due to others	-	-	6,015,235	6,179,149
Federal loan program contributions refundable	5,726,427	5,621,476	-	-
Total noncurrent liabilities	71,312,649	76,953,568	6,976,060	7,308,424
Total liabilities	94,700,633	99,890,992	8,739,297	9,139,357
Net assets:				
Invested in capital assets, net of related debt	150,147,682	140,663,716	732,164	691,806
Restricted:				
Nonexpendable				
Scholarships and fellowships	548,808	583,362	-	-
Endowments	-	-	32,223,528	26,508,566
Expendable				
Scholarships and fellowships	-	46,438	-	-
Instructional department uses	3,328,143	3,562,548	-	-
Loans	1,353,403	1,310,153	-	-
Capital projects	12,466,938	13,411,564	-	-
Debt service	1,038,417	1,066,277	-	-
Other	-	-	17,802,011	21,436,978
Unrestricted	2,159,821	(1,738,869)	2,332,439	2,311,708
Total net assets	171,043,212	158,905,189	53,090,142	50,949,058
TOTAL LIABILITIES AND NET ASSETS	\$ 265,743,845	\$ 258,796,181	\$ 61,829,439	\$ 60,088,415

See accompanying notes to financial statements.

EASTERN ILLINOIS UNIVERSITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(With Comparative Totals for 2007)

	University		Component Units	
	2008	2007	2008	2007
OPERATING REVENUES				
Student tuition and fees (net of scholarship allowances of \$8,488,292 in fiscal year 2008 and \$6,947,174 in fiscal year 2007)	\$ 66,225,748	\$ 62,305,638	\$ -	\$ -
Federal grants and contracts	10,354,207	9,421,164	-	-
State grants and contracts	4,041,978	4,118,304	-	-
Local grants and contracts	446,754	176,744	-	-
Private grants and contracts	1,175,323	880,619	-	-
Sales and services of educational departments	4,417,308	4,221,724	-	-
Auxiliary enterprises (net of scholarship allowances of \$1,614,004 in fiscal year 2008 and \$1,294,796 in fiscal year 2007)	39,416,747	37,943,403	-	-
Gifts	-	-	1,517,296	\$ 1,392,970
Service contract with the University	-	-	235,293	223,337
Budget allocation from the University	-	-	107,301	92,038
Membership dues	-	-	46,860	42,045
Merchandise sales	-	-	-	989
Royalties	-	-	61,717	39,187
Alumni promotions	-	-	680	995
Other operating revenues	2,752,203	2,491,975	221,450	164,981
Total operating revenues	128,830,268	121,559,571	2,190,597	1,956,542
OPERATING EXPENSES				
Educational and general				
Instruction	80,496,843	75,436,556	-	-
Research	1,133,892	1,111,083	-	-
Public service	8,371,245	7,922,071	-	-
Academic support	14,354,957	13,509,570	-	-
Student services	19,132,739	18,012,013	-	-
Institutional support	18,359,463	17,730,818	888,279	793,631
Operations and maintenance of plant	13,179,805	11,458,348	-	-
Student aid	5,886,312	6,083,286	-	-
Auxiliary enterprises	31,592,699	29,867,003	-	-
Depreciation expense	12,008,453	11,774,221	34,642	34,642
Total operating expenses	204,516,408	192,904,969	922,921	828,273
Operating income (loss)	(75,686,140)	(71,345,398)	1,267,676	1,128,269

See accompanying notes to financial statements.

EASTERN ILLINOIS UNIVERSITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS (Continued)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(With Comparative Totals for 2007)

	University		Component Units	
	2008	2007	2008	2007
NONOPERATING REVENUES (EXPENSES)				
State appropriations	\$ 49,189,200	\$ 48,282,450	\$ -	\$ -
Payments on behalf of the University	31,652,439	27,545,752	-	-
Gifts	2,297,218	2,950,537	-	-
Investment income (net)	1,799,245	2,535,992	2,101,359	1,535,612
Net increase (decrease) in fair value of investments	(40,308)	141,586	(4,304,906)	4,242,972
Scholarships	-	-	(796,175)	(710,595)
Distributions to annuity/unitrust beneficiaries	-	-	(174,526)	(233,699)
Actuarial adjustments	-	-	100,515	590,239
Interest on capital asset-related debt	(2,595,950)	(2,845,848)	(97,364)	(98,027)
Nonoperating grants and contracts	2,878	(37,238)	-	-
Amortization of bond costs, premiums, and discounts	981	(138,459)	-	-
Grants to the University	-	-	(1,214,587)	(1,673,326)
Payments to the Foundation	(30,791)	(46,320)	-	-
Loss on disposal of capital assets	(146,145)	(100,942)	-	-
Blair Hall fire insurance recoveries	-	3,382,819	-	-
Other nonoperating revenues	276,357	5,194	-	-
Total nonoperating revenues (expenses)	82,405,124	81,675,523	(4,385,684)	3,653,176
Income before capital contributions	6,718,984	10,330,125	(3,118,008)	4,781,445
Capital appropriations	2,657,335	402,505	-	-
Capital grants and gifts	306,172	476,306	-	-
Transfers from Capital Development Board	2,455,532	17,688,297	-	-
Additions to permanent endowments	-	-	5,259,092	4,139,328
Increase in net assets	12,138,023	28,897,233	2,141,084	8,920,773
NET ASSETS				
Net assets, beginning of year	158,905,189	130,007,956	50,949,058	40,814,505
Cumulative effect of change in accounting principles	-	-	-	1,213,780
Net assets, beginning of year, as restated	158,905,189	130,007,956	50,949,058	42,028,285
Net assets, end of year	\$ 171,043,212	\$ 158,905,189	\$ 53,090,142	\$ 50,949,058

See accompanying notes to financial statements.

EASTERN ILLINOIS UNIVERSITY
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(With Comparative Totals for 2007)

	University		Component Units	
	2008	2007	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES				
Tuition and fees	\$ 66,686,366	\$ 62,018,981	\$ -	\$ -
Grants and contracts (non-capital)	15,293,670	15,143,915	-	-
Sales and services of educational departments	4,304,594	3,553,888	-	-
Auxiliary enterprise	35,121,572	37,532,439	-	-
Payments to suppliers	(44,467,812)	(40,354,306)	(620,968)	(548,673)
Payments to employees	(105,289,679)	(96,120,742)	-	-
Payments for employee benefits	(7,136,992)	(7,176,302)	-	-
Payments for scholarships and fellowships	(5,492,061)	(5,959,601)	-	-
Federal loan program contributions refundable	104,951	93,116	-	-
Loans issued to students	(1,067,312)	(1,264,226)	-	-
Collection of loans from students	906,733	1,147,505	-	-
Royalties	-	-	124,476	113,190
Membership dues	-	-	45,665	42,979
Service contract with the University	-	-	-	78,625
Gifts	-	-	1,532,284	1,431,030
Promotional revenues	-	-	680	995
Other receipts	3,788,217	2,679,565	221,450	175,970
Net cash provided from (used in) operating activities	<u>(37,247,753)</u>	<u>(28,705,768)</u>	<u>1,303,587</u>	<u>1,294,116</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State appropriations	49,189,315	48,282,335	-	-
Private gifts other than capital purposes	2,204,645	2,939,346	-	-
Payments to the Foundation	(30,791)	(46,320)	-	-
Nonexchange grants	-	-	-	-
Grants to organizations	-	(29,430)	-	-
Scholarships	-	-	(793,303)	(708,888)
Distributions to annuity/unitrust beneficiaries	-	-	(302,092)	(357,388)
Agency receipts	-	-	179,210	284,503
Agency payments	-	-	(232,925)	(151,768)
Other non-operating activities	276,359	5,194	5,005,165	4,056,568
Nonoperating grants	(4,934)	-	(1,214,587)	(1,673,326)
Net cash provided by noncapital financing activities	<u>51,634,594</u>	<u>51,151,125</u>	<u>2,641,468</u>	<u>1,449,701</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from bond issue/notes payable	19,805,247	50,585	-	-
Principal paid on capital debt and leases	(5,292,848)	(3,920,012)	-	-
Principal paid through current refunding	(19,535,000)	-	-	-
Interest paid on capital debt and leases	(2,651,698)	(2,901,540)	(90,486)	(106,375)
Mortgage loan payment	-	-	(75,000)	-
Insurance proceeds from fire damage	382,819	3,000,000	-	-
Capital appropriations	2,657,335	402,506	-	-
Capital grants and gifts	297,253	58,638	-	-
Bond issue costs paid	(268,040)	-	-	-
Purchases of capital assets	(19,545,009)	(10,966,617)	-	-
Net cash used in capital and related financing activities	<u>(24,149,941)</u>	<u>(14,276,440)</u>	<u>(165,486)</u>	<u>(106,375)</u>

See accompanying notes to financial statements.

EASTERN ILLINOIS UNIVERSITY
STATEMENT OF CASH FLOWS (Continued)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(With Comparative Totals for 2007)

	University		Component Units	
	2008	2007	2008	2007
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from the sale and maturities of investments	\$ 4,972,537	\$ 5,807,513	\$ 5,911,157	\$ 4,133,073
Interest received on investments	1,772,114	2,593,180	2,220,443	1,590,445
Sale of gift stock and real estate	-	-	328,195	99,430
Purchase of investments	(6,956,667)	(18,205)	(11,288,720)	(8,019,566)
Net cash provided by (used in) investing activities	<u>(212,016)</u>	<u>8,382,488</u>	<u>(2,828,925)</u>	<u>(2,196,618)</u>
Net increase (decrease) in cash and cash equivalents	(9,975,116)	16,551,405	950,644	440,824
Cash and cash equivalents, beginning of year	<u>44,243,245</u>	<u>27,691,840</u>	<u>3,074,594</u>	<u>2,633,770</u>
Cash and cash equivalents, end of year	<u>\$ 34,268,129</u>	<u>\$ 44,243,245</u>	<u>\$ 4,025,238</u>	<u>\$ 3,074,594</u>
Reconciliation of net operating income (loss) to net cash provided from (used in) operating activities				
Operating income (loss)	\$ (75,686,140)	\$ (71,345,398)	\$ 1,267,676	\$ 1,128,269
Adjustments to reconcile operating income (loss) to net cash provided from (used in) operating activities:				
Depreciation	12,008,453	11,774,221	34,642	34,642
Bad debt	-	-	9,517	-
Payments on behalf of the University	31,652,439	27,545,752	-	-
Non-cash stock, real estate gifts	-	-	(71,831)	(30,095)
Actuarial adjustments of new annuities and unitrusts	-	-	19,202	23,894
Changes in assets and liabilities:				
Accounts receivable	(2,494,998)	(591,102)	(12,204)	55,195
Inventories	(143,937)	(27,727)	-	-
Notes receivable	(160,578)	(116,721)	-	-
Other assets	(416,642)	169,831	68,267	68,376
Accounts payable and accrued liabilities	(792,811)	3,446,674	(11,682)	13,835
Deferred revenues	(187,434)	54,813	-	-
Compensated absences	(898,499)	405,398	-	-
Federal loan program contributions refundable	104,951	93,116	-	-
Other long-term liabilities	(4,164)	(109,173)	-	-
Deposits	(228,393)	(5,452)	-	-
Net cash provided from (used in) operating activities	<u>\$ (37,247,753)</u>	<u>\$ (28,705,768)</u>	<u>\$ 1,303,587</u>	<u>\$ 1,294,116</u>
NONCASH INVESTING, NONCAPITAL FINANCING, AND CAPITAL AND RELATED FINANCING TRANSACTIONS				
Change in fair value of investments	\$ (40,308)	\$ 141,586	\$ (4,304,906)	\$ 4,272,972
Change in interest receivable affecting interest received	\$ 27,131	\$ (57,660)	\$ -	\$ -
Change in accrued interest affecting interest paid	\$ (57,956)	\$ 98,388	\$ 4,185	\$ (5,655)
Change in accrued costs relating to capital assets	\$ 154,568	\$ (891,947)	\$ -	\$ -
Transfers of capital assets	\$ 2,455,532	\$ 17,688,297	\$ -	\$ -
Capital assets acquired by capital lease obligations	\$ -	\$ 50,585	\$ -	\$ -

See accompanying notes to financial statements.

**EASTERN ILLINOIS UNIVERSITY
COMBINING STATEMENT OF NET ASSETS
COMPONENT UNITS**

	June 30, 2008		
	Foundation	Alumni Association	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 388,524	\$ 251,479	\$ 640,003
Restricted cash and cash equivalents	3,255,125	-	3,255,125
Short-term investments	32,000	525,274	557,274
Restricted short-term investments	1,908,315	-	1,908,315
Accounts receivable, net of allowance for doubtful accounts	107,944	108,457	216,401
Interest receivable	-	12,276	12,276
Other assets	597	1,039	1,636
Total current assets	5,692,505	898,525	6,591,030
Noncurrent assets			
Restricted cash and cash equivalents	130,110	-	130,110
Endowment investments	32,093,418	-	32,093,418
Restricted investments	19,861,544	-	19,861,544
Other long-term investments	-	740,992	740,992
Other long-term assets	42,798	200,145	242,943
Capital assets, net of accumulated depreciation	1,957,716	211,686	2,169,402
Total noncurrent assets	54,085,586	1,152,823	55,238,409
TOTAL ASSETS	\$ 59,778,091	\$ 2,051,348	\$ 61,829,439
LIABILITIES AND NET ASSETS			
Current liabilities			
Accounts payable and accrued liabilities	\$ 16,928	\$ 860	\$ 17,788
Long-term liabilities, current portion	308,211	-	308,211
Demand mortgage payable	1,437,238	-	1,437,238
Total current liabilities	1,762,377	860	1,763,237
Noncurrent liabilities			
Long-term liabilities, less current portion	960,825	-	960,825
Due to others	6,015,235	-	6,015,235
Total noncurrent liabilities	6,976,060	-	6,976,060
Total liabilities	8,738,437	860	8,739,297
Net assets			
Invested in capital assets, net of related debt	520,478	211,686	732,164
Restricted for:			
Nonexpendable endowment	32,223,528	-	32,223,528
Expendable	17,802,011	-	17,802,011
Unrestricted	493,637	1,838,802	2,332,439
Total net assets	51,039,654	2,050,488	53,090,142
TOTAL LIABILITIES AND NET ASSETS	\$ 59,778,091	\$ 2,051,348	\$ 61,829,439

See accompanying notes to financial statements.

EASTERN ILLINOIS UNIVERSITY
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
COMPONENT UNITS

	For the Year Ended June 30, 2008		
	Foundation	Alumni Association	Total
OPERATING REVENUES			
Gifts	\$ 1,516,245	\$ 1,051	\$ 1,517,296
Service contract with the University	209,770	25,523	235,293
Budget allocation from the University	94,774	12,527	107,301
Membership dues	-	46,860	46,860
Royalties	-	61,717	61,717
Alumni promotions	-	680	680
Other operating revenues	221,342	108	221,450
Total operating revenues	<u>2,042,131</u>	<u>148,466</u>	<u>2,190,597</u>
OPERATING EXPENSES			
Educational and general			
Institutional support	758,451	129,828	888,279
Depreciation expense	28,643	5,999	34,642
Total operating expenses	<u>787,094</u>	<u>135,827</u>	<u>922,921</u>
Operating income	<u>1,255,037</u>	<u>12,639</u>	<u>1,267,676</u>
NONOPERATING REVENUES (EXPENSES)			
Investment income (net)	2,047,284	54,075	2,101,359
Net decrease in fair market value of investments	(4,285,380)	(19,526)	(4,304,906)
Scholarships	(791,175)	(5,000)	(796,175)
Distributions to annuity/unitrust beneficiaries	(174,526)	-	(174,526)
Actuarial adjustments	100,515	-	100,515
Interest on capital asset-related debt	(97,364)	-	(97,364)
Grants to the University	<u>(1,169,678)</u>	<u>(44,909)</u>	<u>(1,214,587)</u>
Net nonoperating revenues	<u>(4,370,324)</u>	<u>(15,360)</u>	<u>(4,385,684)</u>
Loss before capital contributions	(3,115,287)	(2,721)	(3,118,008)
Additions to permanent endowments	5,259,092	-	5,259,092
Increase (decrease) in net assets	2,143,805	(2,721)	2,141,084
NET ASSETS			
Net assets, beginning of year	48,895,849	2,053,209	50,949,058
Net assets, end of year	<u>\$ 51,039,654</u>	<u>\$ 2,050,488</u>	<u>\$ 53,090,142</u>

See accompanying notes to financial statements.

**EASTERN ILLINOIS UNIVERSITY
COMBINING STATEMENT OF CASH FLOWS
COMPONENT UNITS**

	For the Year Ended June 30, 2008		
	Foundation	Alumni Association	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments to suppliers and vendors	\$ (529,998)	\$ (90,970)	\$ (620,968)
Royalties	-	124,476	124,476
Membership dues	-	45,665	45,665
Gifts	1,531,233	1,051	1,532,284
Promotional revenues	-	680	680
Other receipts	221,342	108	221,450
Net cash provided from operating activities	<u>1,222,577</u>	<u>81,010</u>	<u>1,303,587</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Grants to the University	(1,169,678)	(44,909)	(1,214,587)
Scholarships	(788,303)	(5,000)	(793,303)
Distributions to annuity/unitrust beneficiaries	(302,092)	-	(302,092)
Agency receipts	179,210	-	179,210
Agency payments	(232,925)	-	(232,925)
Gifts received for endowment purposes	5,005,165	-	5,005,165
Net cash provided by (used in) noncapital financing activities	<u>2,691,377</u>	<u>(49,909)</u>	<u>2,641,468</u>
CASH FLOWS FROM RELATED CAPITAL AND FINANCING ACTIVITIES			
Interest paid for capital debt and leases	(90,486)	-	(90,486)
Mortgage loan payment	(75,000)	-	(75,000)
Net cash used in capital and related financing activities	<u>(165,486)</u>	<u>-</u>	<u>(165,486)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from the sale and maturities of investments	5,911,157	-	5,911,157
Interest received on investments	2,166,759	53,684	2,220,443
Sale of gift stock and real estate	328,195	-	328,195
Purchase of investments	(11,240,979)	(47,741)	(11,288,720)
Net cash provided by (used in) investing activities	<u>(2,834,868)</u>	<u>5,943</u>	<u>(2,828,925)</u>
Net increase in cash and cash equivalents	913,600	37,044	950,644
Cash and cash equivalents, beginning of year	2,860,159	214,435	3,074,594
Cash and cash equivalents, end of year	<u>\$ 3,773,759</u>	<u>\$ 251,479</u>	<u>\$ 4,025,238</u>
Reconciliation of operating income to net cash provided from operating activities			
Operating income	\$ 1,255,037	\$ 12,639	\$ 1,267,676
Adjustments to reconcile net income to net cash provided from operating activities:			
Depreciation expense	28,643	5,999	34,642
Bad debt expense	9,517	-	9,517
Non-cash stock, real estate gifts	(71,831)	-	(71,831)
Actuarial adjustment of new annuities and unitrusts	19,202	-	19,202
Changes in assets and liabilities:			
Accounts receivable	(11,009)	(1,195)	(12,204)
Royalties receivable	-	62,759	62,759
Prepaid expense	5,483	25	5,508
Accounts payable	(12,465)	783	(11,682)
Net cash provided from operating activities	<u>\$ 1,222,577</u>	<u>\$ 81,010</u>	<u>\$ 1,303,587</u>
NONCASH INVESTING TRANSACTIONS			
Change in fair value of investments	\$ (4,285,380)	\$ (19,526)	\$ (4,304,906)
Change in accrued interest affecting interest paid	4,185	-	4,185

See accompanying notes to financial statements.

**EASTERN ILLINOIS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Eastern Illinois University is a comprehensive, state-assisted, regional service institution. Established in 1895 as a normal school, Eastern is a multi-purpose institution, continuing its strong heritage in teacher preparation while at the same time offering a strong, comprehensive undergraduate program in the arts, sciences, humanities, and professions. The Graduate School complements and builds upon the undergraduate curriculum, providing programs of excellence at the master's and specialist's levels.

Financial Reporting Entity

The financial reporting entity, as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the financial statements to be misleading or incomplete. Based upon the factors discussed below, these financial statements include the accounts of Eastern Illinois University (the University) as the primary government, and the component units, Eastern Illinois University Foundation (the Foundation) and Eastern Illinois University Alumni Association, Inc., (the Alumni Association), discretely presented.

A primary government is financially accountable for a component unit if it appoints a voting majority of the organization's governing body and (1) is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. The primary government may also be financially accountable if an organization is fiscally dependent on the primary government.

The University and the related organizations have also implemented GASB No. 39, *Determining Whether Certain Organizations Are Component Units* (an amendment of GASB Statement No. 14, *The Financial Reporting Entity*) which increased the factors to consider when determining if a component unit should be included in the financial reporting entity of a primary government.

**EASTERN ILLINOIS UNIVERSITY
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As stated in GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, a legally separate organization should be considered a component unit of the primary government if the following three factors are met: 1) the separate organization's economic resources are almost entirely held for the direct benefit of the primary government; 2) the primary government is entitled to or has access to the majority of the resources held or received by the separate organization; and 3) the resources held or received by the separate organization are significant to the primary government.

The Foundation is a legally separate, tax-exempt component unit. It acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. The Board of Directors of the Foundation is self-perpetuating and consists of graduates and friends of the University. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon that the Foundation holds and invests is restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University and its students, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements. An audit of the Foundation's financial statements, for the fiscal year ended June 30, 2008, was conducted by an independent certified public accountant and can be obtained from the University's Administrative Office at 600 Lincoln Avenue, Charleston, IL 61920.

The Alumni Association is also a legally separate, tax-exempt component unit. The Alumni Association is governed by a separately elected Board of Directors and its primary functions are to foster loyalty and fellowship among the alumni of the University and to receive gifts, which are contributed for the welfare of the University. The Alumni Association uses its resources entirely or almost entirely for the direct benefit of the University or its constituents. In addition, the University is entitled to or has access to the majority of the resources of the Association, and such resources are significant to the University. Therefore, the Alumni Association is considered a component unit of the University and is discretely presented in the University's financial statements. An audit of the Alumni Association's financial statements, for the fiscal year ended June 30, 2008, was conducted by an independent certified public accountant and can be obtained from the University's Administrative Office at 600 Lincoln Avenue, Charleston, IL 61920.

The University is a component unit of the State of Illinois and is included in the basic financial statements of the State of Illinois.

**EASTERN ILLINOIS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

Financial Statement Presentation

The basic financial statements include prior year comparative information which has been derived from the University and the Component Units' 2007 financial statements. Such information does not include all of the information required to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the University and Component Units' financial statements for the year ended June 30, 2007.

Basis of Accounting

For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University's financial statements have been presented using the economic resources measurement focus and accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

The University has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The University has elected to not apply FASB pronouncements issued after the applicable date.

The University has also implemented GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues* with this report.

Cash Equivalents

For purposes of the Statement of Cash Flows, the University considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Funds invested through the Illinois Funds are considered cash equivalents.

Investments

The University accounts for its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in the unrealized gain (loss) on the carrying value of investments are reported as net increase (decrease) in fair value of investments in the Statement of Revenues, Expenses, and Changes in Net Assets.

**EASTERN ILLINOIS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
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Inventories

Inventories are carried at the lower of cost (first-in, first-out method) or market.

Accounts Receivable

Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty, and staff, the majority of each residing in the State of Illinois. Accounts receivable also includes amounts due from the federal government, state and local governments, or private sources, in connection with the reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Accounts receivable is recorded net of estimated uncollectible amounts.

Restricted Assets

Restricted assets consist of cash and investments that are restricted by external sources and are classified as either current or noncurrent assets in the Statement of Net Assets depending upon when the assets become available for use.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. The University's capitalization policy for capital assets is as follows: equipment \$5,000 or greater, land or buildings \$100,000 or greater and site or building improvements \$25,000 or greater. Renovations to buildings and equipment that significantly increase the value or extend the useful life of the asset are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. The University purchases textbooks and library materials for its textbook rental service and library. The University capitalizes all library books and textbooks purchases.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 50 years for buildings, 15 to 20 years for site and building improvements, 5 years for library books, 4 to 7 years for equipment and 2 years for textbooks. Depreciation also includes amortization of capitalized leased equipment.

**EASTERN ILLINOIS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
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Deferred Revenues

Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.

Compensated Absences

Employee vacation pay, sick pay, and compensable time are accrued at year-end for financial statement purposes. The liabilities outstanding are reported as accrued liabilities in the Statement of Net Assets, and the expenses incurred are reported as functionalized expenses in the Statement of Revenues, Expenses, and Changes in Net Assets.

Long-term Liabilities

Long-term liabilities include (1) principal amounts of revenue bonds payable, notes payable, and capital lease obligations with contractual maturities greater than one year and (2) estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Net Assets

The University's net assets are classified as follows:

Invested in capital assets, net of related debt: This represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

**EASTERN ILLINOIS UNIVERSITY
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Restricted net assets - expendable: Restricted expendable net assets include resources in which the University is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Restricted net assets - nonexpendable: Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

Unrestricted net assets: Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the University and may be used at the discretion of the governing board to meet current expenses for any purpose. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty, and staff.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the Account Manager of the University account uses discretion in deciding which resources to apply.

Income Taxes

The University, as a political subdivision of the State of Illinois is excluded from Federal income taxes under Section 115(I) of the Internal Revenue Code, as amended.

Reclassifications and Accounting Changes

Bond premiums, discounts, and capitalized deferred accounting losses which were originally included as part of unrestricted net assets has been reclassified to invested in capital assets. The Foundation has elected to early implement GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. This statement requires land and other real estate held as investments by endowments to be recorded at fair market value. Since the Foundation has elected early implementation of this statement, the earliest period presented on their financial statements was restated as required by GASB Statement no. 52. Net assets at July 1, 2006 were increased by \$1,213,780 for the cumulative effect of this change in accounting for its land held by endowments on years prior to fiscal year 2007. The same reclassification was made in the prior year financial statements for

**EASTERN ILLINOIS UNIVERSITY
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comparative purposes to conform to the presentation in the current year financial statements.

Classification of Revenues

The University has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (3) most federal, state and local grants and contracts and federal appropriations, and (4) interest on institutional student loans.

Nonoperating revenues: Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, such as state appropriations and investment income.

On-Behalf Payments for Fringe Benefits

In accordance with GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, the University has reported on-behalf payments made by the State of Illinois to the Department of Central Management Services State Employees Group Insurance Program and the State Universities' Retirement System of Illinois (SURS) totaling \$31,652,439 representing \$23,120,994 and \$8,531,445 for group insurance and retirement costs, respectively. These costs are reflected as nonoperating revenues and operating expenses with revenues reported as payments on behalf of the University and expenses allocated to each educational and general program.

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses, and Changes in Net Assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the

**EASTERN ILLINOIS UNIVERSITY
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University, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as operating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.

2. CASH AND CASH EQUIVALENTS, OTHER DEPOSITS, AND INVESTMENTS

Cash and Deposits

The University maintains deposits at financial institutions authorized by the Board of Trustees. The carrying amount of the University's deposits was \$52,243 as of June 30, 2008. These were fully covered by federal depository insurance. In addition, the University had cash on hand in various petty cash and change funds in the amount of \$45,930 as of June 30, 2008.

Investments

Illinois Statutes and the Board of Trustees authorize the University to invest in United States Government securities, securities guaranteed by the full faith and credit of the United States Government, interest-bearing savings accounts, certificate and time deposits in financial institutions fully insured by the FDIC, and any other security or investment permitted by law and approved by the Board. The Vice-President for Business Affairs has the authority to prescribe investment guidelines consistent with the Board of Trustee regulations, the provisions of the Public Funds Investment Act (30 ILCS 235/2.5 et seq.) and the Uniform Management of Institutional Funds Act (760 ILCS 50/1-10).

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University has established a maximum maturity of up to four years for any investment. State statutes limit maturity on commercial paper investments to 180 days. Effective maturity ranges for investments as of June 30, 2008 are as follows:

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Effective Maturity	0-1 Year	1-5 Years	6-10 Years
Illinois Funds	\$34,166,202	\$ -	\$ -
U.S. Treasury/Agency securities	-	2,989,215	
Mutual bond funds	-	-	111,492
Money market funds	3,754	-	-

Credit Risk

Credit risk is the risk that an issuer or other counterparty to a debt investment will not fulfill its obligations. As of June 30, 2008, all investments, other than the mutual bond fund, were in U.S. agencies or government sponsored corporation securities, which are either explicitly or implicitly guaranteed by the U.S. Government. They are all classified as AAA rated securities. An assumption is made that callable investments will be held until maturity. During the fiscal year 2008, the University did invest in commercial paper. Commercial paper ratings must be in the 3 highest classifications established by at least 2 standard rating services. The mutual bonds are invested in AAA rated funds totaling \$55,249 and AA rated funds totaling \$56,243. The University's investment policy has no specific guidelines addressing the credit rating of mutual bond funds. The Illinois Funds are rated AAA and all other money market fund portfolios consist of investments rated in the top two classification tiers.

Custodial Credit Risk

Custodial credit risk is the risk that when, in the event a financial institution or counterparty fails, the University would not be able to recover value of deposits, investments or collateral securities that are in the possession of an outside party. All of the University's investments are held by a custodian in the University's name and are not subject to creditors of the custodial bank.

The University's investments in the Illinois Funds, mutual funds and money market funds are not subject to detailed disclosure because the University owns shares of each investment fund and not the physical securities.

Concentration Risk

The University does not have any investments representing 5% or more of total assets in any single issuer other than the U.S. Government, its agencies or sponsored corporations. State statutes limit investment in short term debts of corporations to one-third of the agency's funds, and no more than 10% of any one

**EASTERN ILLINOIS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
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corporation's outstanding obligations. The University has limited commercial paper investments to two million dollars per issuer.

The University has not held foreign currency positions other than the purchase of foreign payment drafts to vendors, nor has it participated in securities lending.

The Illinois Funds are in the custody of the State Treasurer and are pooled and invested with other state funds in accordance with the Deposit of State Moneys Act (15 ILCS 520/11). Details on the nature of these investments are available within the State of Illinois' Comprehensive Annual Financial Report.

The Illinois Funds do not have any direct or indirect investments in derivative instruments. The money market funds and mutual funds have not disclosed to the University whether derivatives are used, held, or were written during the period covered by the financial statements.

Reconciliation to the Statement of Net Assets

A reconciliation of cash and investments as presented previously to amounts reported in the Statement of Net Assets as of June 30, 2008 are as follows:

	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
Cash and cash equivalents	\$16,186,353	\$ -	\$16,186,353
Restricted cash and cash equivalents	18,081,776	-	18,081,776
Restricted investments	20,963	1,810,568	1,831,531
Other long term investments	-	1,178,647	1,178,647
Endowment investments	-	548,808	548,808
	<u>\$34,289,092</u>	<u>\$3,538,023</u>	<u>\$37,827,115</u>

Breakdown and carrying amounts of the cash and investments are as follows:

Cash deposits	\$ 52,243
Petty cash funds	45,930
The Illinois Funds money market accounts	34,166,202
Money market accounts – US Bank	3,754
Bond mutual funds – Charles Schwab and Co., Inc.	111,492
Equity mutual funds – Charles Schwab and Co., Inc.	458,279
U.S. Treasury/agency securities	2,989,215
	<u>\$ 37,827,115</u>

**EASTERN ILLINOIS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
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3. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following as of June 30, 2008:

Sales and services	\$ 2,313,069
Student tuition and fees	3,133,676
Auxiliary enterprises and other operating activities	6,212,797
Federal, State, and private grants and contracts	1,451,022
Others	2,645,772
Total	<u>15,756,336</u>
Less allowance for doubtful accounts	(3,491,406)
Net accounts receivable	<u><u>\$ 12,264,930</u></u>

4. INVENTORIES

Inventories consisted of the following as of June 30, 2008:

Bookstore	\$ 884,457
Facilities	508,259
Food services/housing	162,332
Union operation	68,023
Postage	59,472
Pharmacy	28,291
Others	1,063
	<u><u>\$ 1,711,897</u></u>

5. NOTES RECEIVABLE

Student loans made through the Federal Perkins Loan Program (the "Program") comprise substantially all of the notes receivable as of June 30, 2008. Under this Program, the federal government provides funds for approximately 75% of the total contribution for student loans with the University providing the balance. Under certain conditions such loans can be forgiven at annual rates of 10% to 30% of the original balance up to maximums of 50% to 100% of the original loan. The federal government reimburses the University to the extent of 10% of the amounts forgiven for loans originated prior to July 1, 1993, under the Federal Perkins Loan Program. No reimbursements are provided for loans originated after this date. Amounts refundable to the U.S. Government upon cessation of the Program of \$5,726,427 as of June 30, 2008, are reflected in the accompanying Statement of Net Assets as noncurrent liabilities.

EASTERN ILLINOIS UNIVERSITY
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As the University determines that loans are uncollectible and not eligible for reimbursement by the Federal government, the loans may be assigned to the U.S. Department of Education. The allowance for uncollectible loans only applies to University funded loans and the University portion of federal student loans, as the University is not obligated to fund the federal portion of uncollected student loans. The University has provided an allowance for uncollectible loans, which, in management's opinion, is sufficient to absorb loans that will ultimately be written off. As of June 30, 2008, the allowance for uncollectible loans was \$82,387.

6. CAPITAL ASSETS

	For the Year Ended June 30, 2008				6/30/2008
	6/30/2007	Additions	Deletions	Transfers	
(In thousands)					
Capital assets not being depreciated					
Land and land improvements	\$ 2,369	\$ -	\$ -	\$ -	\$ 2,369
Capitalized collections	199	-	-	-	199
Construction in progress	49,977	17,744	108	(3,826)	63,787
Total capital assets not being depreciated	52,545	17,744	108	(3,826)	66,355
Capital assets being depreciated					
Site improvements	15,982	-	-	927	16,909
Buildings and building improvements	216,214	270	-	2,899	219,383
Equipment	56,570	5,400	1,915	-	60,055
Capital leases-equipment	114	-	-	-	114
Total capital assets being depreciated	288,880	5,670	1,915	3,826	296,461
Less accumulated depreciation for:					
Site improvements	8,581	806	-	-	9,387
Buildings and building improvements	91,816	5,678	-	-	97,494
Equipment	45,722	5,503	1,877	-	49,348
Capital leases-equipment	13	21	-	-	34
Total accumulated depreciation	146,132	12,008	1,877	-	156,263
Total capital assets, being depreciated, net	142,748	(6,338)	38	3,826	140,198
Capital assets, net	\$ 195,293	\$ 11,406	\$ 146	\$ -	\$ 206,553

**EASTERN ILLINOIS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

7. CONSTRUCTION IN PROGRESS

The University had numerous construction projects in progress as of June 30, 2008. The Fine Arts Building project is to be funded mainly by appropriations to the Capital Development Board. The Coal Heat Plant project is only in the planning stages at this time, with funding sources still being identified. Below is a listing of the major construction projects in progress as of June 30, 2008:

	<u>Project Estimate</u>	<u>Expended to 6/30/08</u>	<u>Committed</u>
Ninth Street Hall Addition	\$ 1,698,000	\$ 76,000	\$ 1,622,000
EIU Renewable Energy Center	40,000,000	74,600	39,925,400
Fine Arts building addition	7,122,000	7,278,747	(156,747)
Fine Arts building renovation	55,450,000	47,468,503	7,981,497
Various residence hall projects	5,550,000	4,772,030	777,970
Electrical distribution upgrade	4,220,000	2,207,543	2,012,457
Various bond facility projects	170,000	128,914	41,086
Textbook rental facility	2,850,000	60,903	2,789,097
Fine Arts sound systems	1,500,000	1,078,996	421,004
Other miscellaneous	1,475,000	640,881	834,119
	<u>\$ 120,035,000</u>	<u>\$ 63,787,117</u>	<u>\$ 56,247,883</u>

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consisted of the following as of June 30, 2008:

Accounts payable	\$ 4,219,927
Accrued wages	6,542,087
Accrued expenses	2,178,610
Other	140,808
	<u>\$ 13,081,432</u>

**EASTERN ILLINOIS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
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9. DEFERRED REVENUES

Deferred revenues consisted of the following as of June 30, 2008:

Tuition and fees	\$ 1,659,925
Sales and services	183,119
Auxiliary enterprises	184,172
Grants and contracts	488,914
Miscellaneous	109,811
	<u>\$ 2,625,941</u>

10. LONG-TERM LIABILITIES

	As of June 30, 2008				Amounts due within one year
	Balance 6/30/07	Additions	Reductions	Balance 6/30/08	
Revenue bonds, notes payable and Certificate of Participation					
Revenue bonds payable	(1) \$ 40,840,000	\$ 18,590,000	\$ 22,630,000	\$ 36,800,000	\$ 2,170,000
Revenue bond discounts	(46,697)	-	(45,914)	(783)	(552)
Revenue bond premiums	246,172	1,215,246	178,329	1,283,089	370,315
Deferred accounting loss	(947,479)	(124,024)	(111,547)	(959,956)	(121,338)
Notes payable	(1) 125,051	-	22,400	102,651	102,651
Certificates of Participation	(2) 22,775,000	-	2,150,000	20,625,000	2,295,000
COPS premium	97,201	-	32,316	64,885	24,880
COPS discount	(175,964)	-	(19,481)	(156,483)	(17,515)
Capital lease obligations	(3) 80,443	-	25,447	54,996	24,105
Other liabilities					
Accrued compensated absences	* 14,943,370	-	898,499	14,044,871	1,466,184
Deposits	* 1,641,120	6,351	238,908	1,408,563	1,366,881
Federal loan program contributions	* 5,621,476	104,951	-	5,726,427	-
Total long-term liabilities	<u>\$ 85,199,693</u>	<u>\$ 19,792,524</u>	<u>\$ 25,998,957</u>	<u>\$ 78,993,260</u>	<u>\$ 7,680,611</u>

(1) See Note 11 for more information on revenue bonds and notes payable.

(2) See Note 12 for more information on Certificates of Participation.

(3) See Note 13 for more information on capital lease obligations.

* Due to limitations in the University's accounting system, the gross amounts for additions and reductions are not readily available for fiscal year 2008.

**EASTERN ILLINOIS UNIVERSITY
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Total interest expense for the year ended June 30, 2008 was \$2,595,950. There was \$129,619 interest capitalized as part of capital projects in progress during the year.

11. REVENUE BONDS AND NOTES PAYABLE

Revenue bonds payable consisted of the following as June 30, 2008:

\$10,000,000, Auxiliary Facilities System Revenue Bonds, Series 2000, term bonds due in annual installments (principal only) of \$285,000 to \$300,000 through April 1, 2010; interest rate is 5.0%.	\$ 585,000
\$19,345,000, Auxiliary Facilities System Revenue Bonds, Series 2005, term bonds due in annual installments (principal only) of \$885,000 to \$1,370,000 through April 1, 2013; \$965,000 to \$1,595,000 through April 1, 2018; \$540,000 to \$635,000 through April 1, 2023; \$665,000 to \$730,000 through April 1, 2026; interest ranges from 3.0% to 5.0%.	17,625,000
\$18,590,000 Auxiliary Facilities System Revenue Bonds, Series 2008, term bonds due in annual installments (principal only) of \$1,000,000 to \$2,900,000 through October 1, 2015; interest ranges from 3.25% to 5.0%.	<u>18,590,000</u>
Total bonds outstanding	<u><u>\$ 36,800,000</u></u>

On July 1, 2005, the Series 2005 Bonds were issued in the principal amount of \$19,345,000. Proceeds from the sale of the Series 2005 Bonds were used to advance refund all of the Series 1997 Bonds and portions of the outstanding Series 1998 and Series 2000 Bonds. The net proceeds were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1997 Series Bonds as well as the portions of the Series 1998 and Series 2000 Bonds that were advance refunded. As a result, the 1997 Bonds and refunded portions of the 1998 and 2000 Bonds are considered defeased and the liability for those bonds has been removed from the University's Statement of Net Assets.

Although the advance refunding resulted in the recognition of an accounting loss of \$1,164,045, the University in effect reduced its aggregate debt service payments by \$951,513 over the next 21 years and also gained the University the release of the Series 1997 Debt Service Reserve Fund in the amount of \$953,416.

During March of 2008, the Series 2008 Bonds were issued in the principal amount of \$18,590,000. Proceeds from the sale of the Series 2008 Bonds were used to refund and redeem in April 2008, all of the outstanding Auxiliary Facilities System

**EASTERN ILLINOIS UNIVERSITY
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Revenue Bonds, Series 1998, that matured on and after October 1, 2008. The Series 1998 Bonds due on April 1, 2008 were paid from other available University funds. This portion of the Series 1998 Bonds are no longer outstanding and the liability for those bonds has been removed from the University's Statement of Net Assets.

Although the current refunding resulted in the recognition of an accounting loss of \$124,024, the University in effect reduced its aggregate debt service payments by \$920,974 over the next eight years.

All bonds outstanding are payable by the Board of Trustees solely from the net revenue of the Eastern Illinois University Auxiliary Facilities System (the "System") and from pledged tuition and fees, as well as from certain other funds pledged to pay the principal, redemption premiums, if any, and interest on the bonds.

As of June 30, 2008, \$8,895,000 of previously refunded bonds were outstanding. Assets held in irrevocable trust accounts, along with interest, are anticipated to be sufficient to retire these bonds. As such, these bonds are defeased and accordingly have been accounted for as if they were retired. The balances of the related escrow funds were \$9,106,401 as of June 30, 2008.

The estimated annual amounts required for the payment of principal and interest on the outstanding revenue bonds as of June 30, 2008, are set forth in the following table:

Year ending June 30	Principal	Interest	Total Payments
2009	\$ 2,170,000	\$ 1,712,954	\$ 3,882,954
2010	3,360,000	1,559,088	4,919,088
2011	3,525,000	1,401,862	4,926,862
2012	3,680,000	1,241,638	4,921,638
2013	3,870,000	1,054,638	4,924,638
2014-2018	15,170,000	2,491,002	17,661,002
2019-2023	2,930,000	821,678	3,751,678
2024-2026	2,095,000	182,632	2,277,632
Total	<u>\$ 36,800,000</u>	<u>\$ 10,465,492</u>	<u>\$ 47,265,492</u>

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The following reserve accounts were established by the bond resolutions for the 2000, 2005, and 2008 Bond Series:

Retirement of Indebtedness -- These accounts include the Bond and Interest Sinking Accounts.

The bond indenture requires the University to set aside in the Bond and Interest Sinking Account on or before five banking days prior to April 1 and October 1, amounts sufficient to equal the next semi-annual payment (principal and interest). These amounts are to be provided after payment of current operating and maintenance costs.

Repair and Replacement Reserve Account -- Under the terms of the bond indenture, a transfer is made each fiscal year, if approved by the Board, to the Repair and Replacement Reserve Account. The maximum amount which may be accumulated in this account, including investments thereof, shall not exceed 5 percent of the replacement costs of the facilities constituting the System, plus either 10 percent of the historical costs of the parking lots or 100 percent of the estimated cost of resurfacing any one existing parking lot. This account will be used to pay the cost of unusual or extraordinary maintenance or repairs, renewals, replacements and renovating of the facilities or replacement of fixed equipment not paid as part of the ordinary maintenance and operations. Funds can be transferred from this account to the Bond and Interest Sinking Account if a deficiency occurs in that account which cannot be funded from the Debt Service Reserve Account.

Development Reserve Account -- Under the terms of the bond indenture, funds approved by the Board for expenditure for new space or construction of a facility are deposited in this account.

Equipment Reserve Account -- Under the terms of the bond indenture, funds approved by the Board for expenditure in connection with the acquisition of movable equipment to be installed in the facilities are deposited in this account. The maximum amount accumulated shall not exceed 20 percent of the cost of the movable equipment of the System.

Surplus Revenues -- After all mandatory transfers to the above accounts have been made, any excess funds may be used to: redeem or purchase bonds, advance refund bonds, credit funds to a utility reserve to provide for the payment of utilities (amount not to exceed 5 percent of the operating costs during such fiscal year), or to establish a self-insurance fund in connection with claims against or damage to the System.

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The amounts required by the bond resolution for these purposes as of June 30, 2008 compared with the amounts included within the accounts as of June 30, 2008 are as follows:

	Minimum Amount Required By Bond Resolution	Cash and Investments Deposited in the Account
Repair and Replacement Reserve Account	<u>\$ -</u>	<u>\$ 3,895,816</u>

Pledged Revenues and Debt Service Requirements

The University has pledged specific revenues, net of specified operating expenses, to repay the principal and interest of revenue bonds. The following is a schedule of the pledged revenues and related debt:

Pledged Revenues					
Bond Issue	Purpose	Source of Revenue Pledged	Future Revenues Pledged ¹	Term of Commitment	Debt Service to Pledged Revenues
Auxiliary Facilities System (AFS)	Refundings, various improvements and additions to the System	Net AFS revenue, student tuition and fees	\$ 47,265,492	2026	8%

¹ Total future principal and interest payments on bonds.

For the current year, principal and interest paid by the University and the total net revenues pledged were \$5,898,385 and \$75,039,899, respectively.

Notes payable consisted of the following as of June 30, 2008:

University demand note payable to First Mid-Illinois Bank and Trust, to finance equipment for the union bowling center; payable on demand, but if no demand is made, payable in annual installments of \$29,239 including interest at 5.44%; final payment due February, 2012; secured by union bowling center equipment

\$ 102,651
<u>\$ 102,651</u>

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Maturity Information

The scheduled maturities of the notes payable, if demand is made, are as follows:

Year ending June 30	Principal	Interest	Total Payments
<u>2009</u>	<u>\$ 102,651</u>	<u>\$ 5,598</u>	<u>\$ 108,249</u>

12. CERTIFICATES OF PARTICIPATION

The Certificates of Participation (COPS) consisted of the following as of June 30, 2008:

\$10,775,000 Certificates of Participation, Series 2001; due in annual installments (principal only) of \$650,000 beginning August 15, 2002, to \$1,550,000 through August 15, 2011; interest ranges from 2.35% to 5.25%; certificates are subject to redemption, in whole, at the price of par (100%), plus accrued interest to the date fixed for redemption in the event of non-appropriation as defined in the Indenture. \$ 5,485,000

\$8,640,000 Certificates of Participation, Series 2003; due in annual installments (principal only) of \$695,000 beginning in August 15, 2004 to \$1,075,000 through August 15, 2013; interest ranges from 3% to 4%; certificates are subject to redemption, in whole, at the price of par (100%), plus accrued interest to the date fixed for redemption in the event of non-appropriation as defined in the Indenture. 5,670,000

\$9,730,000 Certificates of Participation, Series 2005; due in annual installments (principal only) of \$260,000 beginning February 15, 2008, to \$1,020,000 through February 15, 2025, interest ranges from 3.0% to 4.3%; certificates are subject to redemption, in whole, at the price of par (100%), plus accrued interest to the date fixed for redemption in the event of non-appropriation as defined in the Indenture and are subject to mandatory redemption, in whole, at the price of the principal amount, plus accrued interest, on February 15, 2025 should the Board renew the Purchase Contract. The certificates are also callable at the option of the Board on any date on or after February 15, 2015 at the price of the principal amount, plus accrued interest. 9,470,000

Total Certificates of Participation \$20,625,000

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Per the COPS Series 2001, COPS Series 2003, and the COPS Series 2005 official statements, the Board is obligated to make installment payments either from funds derived from State appropriations or from legally available non-appropriated funds. Such legally available non-appropriated funds will include payments from the auxiliary facilities system using the savings derived from improvements within the system that are part of the energy services component of the issues. In addition, for the COPS Series 2003, such legally available funds include an increase of the student technology fee related to the network infrastructure upgrade and for the COPS Series 2005, such legally available funds include an increase in the campus improvement fee. The estimated annual amounts required for the payment of principal and interest on the outstanding Certificates of Participation as of June 30, 2008, are set forth in the following table:

Year ending June 30	Principal	Interest	Total Payments
2009	\$ 2,295,000	\$ 802,794	\$ 3,097,794
2010	2,455,000	709,944	3,164,944
2011	2,630,000	607,662	3,237,662
2012	2,810,000	491,456	3,301,456
2013	1,325,000	401,334	1,726,334
2014-2018	2,775,000	1,538,844	4,313,844
2019-2023	4,335,000	978,244	5,313,244
2024-2025	2,000,000	129,370	2,129,370
Total	<u>\$ 20,625,000</u>	<u>\$ 5,659,648</u>	<u>\$ 26,284,648</u>

13. LEASES PAYABLE

The University leases various computers and other equipment under capital lease purchase contracts. The equipment and related capital lease obligations are presented on the Statement of Net Assets at the net present value of the future minimum lease payments due under the capital leases as determined using applicable discount rates.

Following is a schedule by years of the total future minimum lease payments due under these equipment capital leases together with the net present value of the future minimum lease payments as of June 30, 2008:

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Year ending June 30,	
2009	\$ 28,037
2010	12,900
2011	12,900
2012	9,675
Total minimum lease payments	<u>63,512</u>
Less amount representing interest	<u>8,517</u>
Net present value of future minimum lease payment	<u>\$ 54,995</u>

The University also made rental payments under operating leases in 2008 of \$259,323 primarily for office space used by various grant activities, temporary fine arts facilities due to renovations, and the University's textbook rental system. The University expects that with the opening of the Doudna Fine Arts Center in Fall 2008, rent expenditures would decline in fiscal year 2009.

The University has two operating leases for the temporary fine arts facilities due to renovations. One lease agreement expired on August 31, 2005 and is being renewed on a month-by-month basis. The other lease was extended until June 30, 2008. Both agreements are on a month-by-month basis for FY09 and will be terminated on September 30, 2008.

14. RETIREMENT PLAN

Plan Description

Eastern Illinois University contributes to the State Universities' Retirement System of Illinois (SURS), a cost-sharing multiple-employer defined benefit pension plan with a special funding situation whereby the State of Illinois makes substantially all actuarially determined required contributions on behalf of the participating employers. SURS was established July 21, 1941, to provide retirement annuities and other benefits for staff members and employees of the state universities, certain affiliated organizations, and certain other state educational and scientific agencies and for survivors, dependents, and other beneficiaries of such employees. SURS is considered a component unit of the State of Illinois' financial reporting entity and is included in the state's financial reports as a pension trust fund. SURS is governed by Section 5/15, Chapter 40, of the Illinois Compiled Statutes. SURS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to SURS, 1901 Fox Drive, Champaign, IL 61820 or by calling 1-800-275-7877.

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Funding Policy

Plan members are required to contribute 8.0% of their annual covered salary and substantially all employer contributions are made by the State of Illinois on behalf of the individual employers at an actuarially determined rate. The rate for the year ended June 30, 2008, 2007 and 2006 were 12.88%, 10.61%, and 10.18%, respectively, of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the Illinois General Assembly. The employer contributions to SURS for the year ended June 30, 2008, 2007, and 2006 were \$8,837,061, \$6,494,479 and \$4,384,895, respectively, equal to the required contributions for each year.

15. POST EMPLOYMENT BENEFITS

The State provides health, dental, vision, and life insurance benefits for retirees and their dependents in a program administered by the Department of Healthcare and Family Services along with the Department of Central Management Services. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State sponsored pension plans. Health, dental, and vision benefits include basic benefits for annuitants and dependents under the State's self-insurance plan and insurance contracts currently in force. Annuitants may be required to contribute towards health, dental, and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants who retired prior to January 1, 1998, and who are vested in the State Employee's Retirement System do not contribute towards health, dental, and vision benefits. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced five percent for each year of credited service with the State allowing those annuitants with twenty or more years of credited service to not have to contribute towards health, dental, and vision benefits. Annuitants also receive life insurance coverage equal to the annual salary of the last day of employment until age 60, at which time the benefit becomes \$5,000.

The State pays the University's portion of employer costs for the benefits provided. The total cost of the State's portion of health, dental, vision, and life insurance benefits of all members, including post-employment health, dental, vision, and life insurance benefits, is recognized as expenditure by the State in the Illinois Comprehensive Annual Financial Report. The State finances the costs on a pay-as-you-go basis. The total costs incurred for health, dental, vision, and life insurance benefits are not separated by department or component unit for annuitants and their dependents nor active employees and their dependents.

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A summary of post-employment benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the financial statements of the Department of Healthcare and Family Services. A copy of the financial statements of the Department of Healthcare and Family Services may be obtained by writing to the Department of Healthcare and Family Services, 201 South Grand Ave., Springfield, Illinois, 62763-3838.

16. SELF INSURANCE

The University is self insured for general liability through SURMA, the State Universities' Risk Management Association. SURMA is a cooperative agency voluntarily established by contracting Illinois State Universities, as defined by various sections of Chapter 110 of the Illinois Compiled Statutes. Its purpose is to prevent or lessen casualty losses to State University properties and injuries to persons or property which might result in claims being made against the State University and which would not be defended by the Illinois Attorney General and paid for by the State of Illinois and in most cases adjudicated through the Court of Claims. Each participating University's portion of the premium was determined based upon an actuarial evaluation. The University carries commercial excess general liability coverage with coverage up to \$5 million with a \$350,000 self-insured retention. Settled claims have not exceeded commercial general liability coverage in any of the three preceding years.

In addition, the University offers a self-insured health plan to its students and is the administrator of this plan. A student health insurance fee is assessed each semester to fund this plan. Students who enroll for nine or more hours are automatically covered and students who enroll for six to eight hours can request to be included under the plan. Dependents of an eligible student are not allowed to enroll in this plan. Students who are enrolled for nine or more hours may elect not to participate in the plan if they can provide proof of existing medical insurance that exceeds the benefits offered under the University's plan.

This plan is considered secondary or excess insurance if the student possesses any other medical insurance. This plan has a \$50 deductible per diagnosis per school year and allows benefits up to 80%, subject to some limitations. The lifetime maximum benefits of the plan are \$15,000 per diagnosis for medical services and \$5,000 for mental illness and substance abuse. Total claims of \$815,077 were paid for the year ended June 30, 2008.

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The University has established a reserve for its self insurance costs to offset claims incurred but not submitted and the continuing rise of health care costs. This reserve is based on estimated ultimate cost of settling claims applying historical experience. Changes in the reserve balance for the year ended June 30, 2008 are as follows:

Reserve balance, June 30, 2007	\$ 168,248
Current year claims	819,977
Payment of claims	<u>(815,077)</u>
Reserve balance, June 30, 2008	<u>\$ 173,148</u>

17. TRANSACTIONS WITH RELATED PARTIES

The University, being a State university, is a component unit of the State of Illinois (the State). The State provided the University with funds to spend on general and educational purposes as well as capital items during fiscal year 2008. The University received from the State \$49,189,200 for general and educational purposes and \$2,657,335 for capital expenditures during the fiscal year 2008.

The University also received assets from the Capital Development Board (CDB), an agency of the State of Illinois. CDB administered various capital improvements at the University. During fiscal year 2008, the University received \$2,455,532 of capital improvements that were funded and paid for directly by CDB.

The Eastern Illinois University Foundation (Foundation) has a contract with Eastern Illinois University in which the Foundation has agreed to aid and assist the University in achieving its education, research and service goals by developing and administering gifts made to the Foundation to be used for the benefit of the University for scholarships, grants and other supporting programs. The University agreed, as part of this contract, to furnish certain services necessary to the operation of the Foundation which are to be repaid by the Foundation either in the form of money or its equivalent in services or resources.

During the year ended, June 30, 2008, the University provided cash, services and other resources to the Foundation totaling \$209,770 to help defray the Foundation's cost incurred under the contract. During the year ended June 30, 2008, the Foundation incurred expenses of \$131,145 under the contract.

During the year ended June 30, 2008, the Foundation gave the University \$1,230,683 of cash, services and resources, unrestricted or restricted only as to department, which are generally for on-going operations of the University. In addition, the Foundation gave the University restricted scholarships, grants and

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awards of \$791,175 during the year. Also the Foundation received \$22,975 for the year ended June 30, 2008, in gifts from the University's restricted gift account with the donor's consent and \$146,000 from a University grant account.

The Eastern Illinois University Alumni Association, Inc. (Association) had an agreement with Eastern Illinois University to coordinate the University's alumni activities. The University agreed to provide the Association with money or in-kind services in an amount not to exceed the Association's cost of coordinating these activities. The Association has also agreed to pay the University for all facilities, services, and resources used. The payment is to be either in the form of money or its equivalent in services or resources.

During the year ended June 30, 2008, the University provided the Association with \$25,523 in services in accordance with the contract.

In fulfilling its fiscal year 2008 contract with the University, the Association incurred \$147,686 of expenses and \$38,050 of in-kind expenses. Included in the fiscal year 2008 expenses of \$147,686 are unrestricted gifts/grants of \$44,909 to the University. In addition, the Association provided the use of its facilities at no charge to the University. The value of these facilities was \$47,444 for the year ended June 30, 2008.

18. COMMITMENTS AND CONTINGENT LIABILITIES

The University is party to various lawsuits arising out of the normal conduct of its operations. In the opinion of University management, the ultimate resolution of these matters will not have a material adverse effect upon the University's financial position.

The University participates in certain Federal and State Government agencies grant programs. These programs are subject to financial and compliance audits by the grantor or its representative. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. Management believes disallowances, if any, will not be material.

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19. NATURAL CLASSIFICATIONS OF EXPENSES

Operating expenses by natural classification for the year ended June 30, 2008 are as follows:

Salaries	\$ 103,997,187
Benefits	38,578,947
Supplies	6,310,281
Contractual services	19,102,142
Utilities	5,145,032
Travel	2,221,668
Repairs and maintenance, equipment and buildings	4,075,121
Scholarships	5,492,061
Other	7,585,516
Depreciation	12,008,453
	<u>\$ 204,516,408</u>

20. DISCLOSURES OF COMPONENT UNITS

As the cash, investments and liabilities of the Foundation are considered material to the University's financial statements taken as a whole, the following disclosures are made regarding these items.

Cash and Cash Equivalents

The Foundation's cash deposits mainly represent funds held by the University in the Illinois Funds. The Illinois Funds are pooled short term fully collateralized money market accounts administered by the Treasurer of the State of Illinois. The Foundation also maintains deposits at those depository institutions authorized by the Foundation Board of Directors. These deposits are fully covered by Federal Depository Insurance.

Investments

The Foundation is authorized by the Board of Directors to invest funds in compliance with stated investment policies. All other investments are carried at their fair value, as determined by quoted market prices for investments that have readily available fair value. For investments for which a readily determinable fair value does not exist (e.g. private equities and alternative investments), the investments are valued at estimated fair values based on information provided by the fund managers. Because of the inherent uncertainty of valuation relating to the Foundation's investments in investee funds and their underlying investments, the

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estimate of fair value may differ from the values that would have been used had a ready market existed, and any difference could be material.

If a donor has not provided specific instructions, Illinois Compiled Statutes (760 ILCS 50/3) permits the Board of Directors to authorize for expenditure the net appreciation (realized and unrealized) of the investments of endowment funds. When administering its power to spend net appreciation, the Board of Directors is required to consider the Foundation's long-term and short-term needs, present and anticipated financial requirement, expected total return on its investments, price-level trends, and general economic conditions. Any net appreciation that is spent is required to be spent for the purposes of which the endowment was established.

The long-term objective of the endowment funds, as determined by the Board of Directors, is to achieve a total return in excess of its current spending rate policy over a twenty-year time horizon. The current rate of the spending rate policy is 5% per year, comprised of a 4.25% spending rate and 0.75% for administrative expenses. In addition to achieving the 5% spending rate policy, the policy asset allocation is designed to cover the costs of inflation, investment management/consulting fees, and other related costs. The spending allowance calculation is determined by taking the spending rate (currently 5%) times the investment portfolio's trailing twelve-quarter average market value, as of December 31st of each year. Any remaining return over the 5% spending rate will be retained for use in future years. As of June 30, 2008, net appreciation of \$10,313,550 is available to be spent, but is restricted to specific purposes. Also, as of June 30, 2008, the fair market values of certain endowment investments were below their original cost by \$706,864.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Foundation's fixed income investments as of June 30, 2008 are disclosed as follows:

<u>Effective Duration</u>	<u>6-10 Years</u>
Mutual Bond Funds	\$ 13,249,242

The Foundation holds mutual bond funds with PIMCO and Vanguard. PIMCO bond funds have an average maturity of 6.01 to 8.39 years. Vanguard bond funds have an average maturity of 7.5 to 9.1 years. The Foundation does not have a policy that specifically addresses interest rate risk.

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Credit Risk

Credit risk is the risk that an issuer or other counterparty to a debt investment will not fulfill its obligations. The Foundation has no specific guidelines addressing the credit rating of fixed income securities. The quality ratings for investments disclosed as of June 30, 2008 are shown as follows.

Quality Rating	AAA	AA	A
Money Market Funds	\$ 3,962,632	\$ -	\$ -
Mutual Bond Funds	3,085,359	9,767,489	396,394

The money market funds administered by Charles Schwab & Co., Inc. do not have a quality rating.

Custodial Credit Risk

Custodial credit risk is the risk that when, in the event a financial institution or counterparty fails, the Foundation would not be able to recover the value of deposits, investments or collateral securities that are in the possession of an outside party. The Foundation's policy does not address custodial credit risk. One hundred percent of the Foundation's investments are held by a custodian in the Foundation's name and are not subject to creditors of a custodial bank.

The Foundation's investments in The Illinois Funds, money market mutual funds, mutual funds, bond funds, equity funds and Federated Treasury Obligations Trust are not subject to detail disclosure because the Foundation owns shares of each investment fund and not the physical securities. Cash surrender value of life insurance and real estate are also not subject to disclosure.

Concentration Risk

The Foundation does not have any investments representing 5% or more of total assets in any single issuer. The Foundation does not have a policy that specifically addresses concentration risk.

The Foundation has not held foreign currency positions. Managers are authorized to participate in securities lending, but did not participate in securities lending other than participation in a mutual fund.

The Illinois Funds are in the custody of the State Treasurer and are pooled and invested with other state funds in accordance with the Deposit of State Moneys Act

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of the Illinois Compiled Statutes (15 ILCS 520/11). Details on the nature of these investments are available within the State of Illinois' Comprehensive Annual Financial Report. The Illinois Funds do not have any direct or indirect investments in derivative instruments.

The money market mutual funds, bond funds, equity funds, Northern Prime Obligations #887 and mutual funds have not disclosed to the Foundation whether derivatives are used, held or were written during the period covered by the financial statements.

Reconciliation to the Statement of Net Assets

A reconciliation of cash and investments as shown on the June 30, 2008 Statement of Net Assets is as follows:

	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
Cash and cash equivalents	\$ 388,524	\$ -	\$ 388,524
Restricted cash and cash equivalents	3,255,125	130,110	3,385,235
Restricted investments	1,908,315	19,861,544	21,769,859
Other current investments	32,000	-	32,000
Endowment investments	-	32,093,418	32,093,418
Total cash and investments	<u>\$ 5,583,964</u>	<u>\$ 52,085,072</u>	<u>\$ 57,669,036</u>

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Breakdown and carrying amount of the cash and investments are as follows:

The Illinois Funds money market accounts	\$ 3,773,760
Money market accounts administered by First-Mid-Illinois Bank and Trust	188,872
Money market accounts administered by Charles Schwab & Co., Inc.	1,606,417
Investments administered by Charles Schwab & Co., Inc.	
Bond funds	13,249,242
Equities and Equity funds	21,694,954
Investments administered by Davis Funds	3,842,662
Alternative Investments	
Investments administered by the Commonfund	1,466,249
Investments administered by Corbin Pinehurst	3,764,626
Investments administered by CITCO Fund Services	3,339,464
Private Equities	
Investments administered by Park Street Capital	452,341
Investments administered by Goldman Sachs	74,594
Cooperative stock	870
Life insurance cash values	67,852
Real estate	4,147,133
	<hr/>
Total cash and investments	<u><u>\$ 57,669,036</u></u>

Long-term Liabilities

The Foundation incurred a demand mortgage note payable to a bank for the purchase of land and construction of a new foundation center, known as the Neal Welcome Center. The building, as well as two unitrust gifts were pledged as collateral on this note. Accrued interest is payable on demand, but if no demand is made, then on the 10th day of each month. The principal is payable on demand, but if no demand is made, then on October 10, 2011. The Foundation made a voluntary \$75,000 payment to principal during fiscal year 2008. Additionally, the interest rate was reduced from 6.50% to 5.75% on May 30, 2008.

The balance of the demand mortgage note payable was \$1,437,238 as of June 30, 2008.

In addition, the Foundation had amounts due to others as of June 30, 2008, in the amounts of \$6,015,235. These liabilities arose as the Foundation acts as the trustee for certain trusts. Also, the Foundation has control of the assets under certain split interest agreements which will eventually need to be paid to outside parties.

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21. SUBSEQUENT EVENTS

In December 2008, the University issued Auxiliary System Revenue Bonds, Series 2008B, in the amount of \$4,230,000. Proceeds from the sale of the bonds will be used to construct and equip the new Textbook Rental Service facility and pay for issuance costs. These bonds will be paid from student fees.

As of March 31, 2009, due to significant volatility in the financial markets, the value of the University's endowment investments has decreased by approximately 20% since June 30, 2008. However, because the values of individual investments fluctuate with market conditions, the amount of investment losses that the University will recognize in its future financial statements, if any, cannot be determined.

EASTERN ILLINOIS UNIVERSITY
UNAUDITED DATA REQUIRED BY REVENUE BOND RESOLUTIONS
June 30, 2008

SCHEDULE OF INSURANCE

Insurance Coverage:

Property damage including building, contents, business interruption, and electronic data processing. Coverage is for fire, lightning, windstorms, hail, explosion, riot, civil commotion, vandalism and malicious mischief, and flood and earthquake.

	<u>Coverage Amount</u>	<u>Deductible</u>
Most building, contents, business interruption, electronic data processing and builder's risk	\$ 500,000,000	\$ 25,000
Boiler and machinery	100,000,000	25,000
Flood	50,000,000	-*
Earthquake	100,000,000	25,000

Insurance company: Lexington Insurance Company

Policy period: July 1, 2007 to July 1, 2008

* 2% of total insurable value per building, per occurrence, subject to a minimum of \$1,000,000.

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June 30, 2008

RATES	<u>Double Occupancy</u>	<u>Single Occupancy</u>
Residence halls		
Summer 2007	\$ 1,100	N/A
Fall 2007		
7 meals	3,161	3,911
10 meals	3,301	4,051
12 meals	3,426	4,176
15 meals	3,562	4,312
Spring 2008		
7 meals	3,161	3,911
10 meals	3,301	4,051
12 meals	3,426	4,176
15 meals	3,562	4,312
Summer 2008 (8 week session)	1,176	1,471

RATES	<u>Efficiency</u>	<u>One bedroom</u>	<u>Super Efficiency</u>
Married student housing (monthly rent)			
Fall 2007	\$ 400	\$ 421	\$ 375
Spring 2008	400	421	375
Summer 2008	400	421	375

University Court (semester)	<u>Range</u>	
Fall 2007	\$ 2,197	to \$ 2,937
Spring 2008	2,197	to 2,937
Summer 2008 (8 week session)	874	to 982

Bond revenue fees	<u>Fees</u>
Summer 2007	\$ 267.39
Fall 2007	267.39
Spring 2008	267.39
Summer 2008	267.39

EASTERN ILLINOIS UNIVERSITY
UNAUDITED DATA REQUIRED BY REVENUE BOND RESOLUTIONS
June 30, 2008

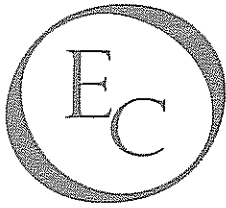
ENROLLMENT DATA

<u>Enrollment Date</u>	<u>Undergraduate Students</u>	<u>Graduate Students</u>	<u>Extension Students</u>	<u>Total</u>
Summer 2007	2,016	791	1,600	4,407
Fall 2007	9,797	1,216	1,166	12,179
Spring 2008	8,891	1,194	1,217	11,302
Summer 2008	2,071	829	1,561	4,461

OCCUPANCY DATA

<u>OCCUPANCY</u>	<u>Occupancy</u>	<u>Rate Occupancy</u>	<u>% of Occupancy</u>
Residence halls			
Fall 2007	(1) 3,904	4,689	83%
Spring 2008	(1) 3,624	4,689	77%
Married student housing			
Summer 2007	79	154	51%
Fall 2007	150	154	97%
Spring 2008	148	154	96%
Summer 2008	71	154	46%
University Court			
Summer 2007	95	146	65%
Fall 2007	145	146	99%
Spring 2008	144	146	99%
Summer 2008	132	146	90%

(1) reflects adjustment for floor used for faculty offices during construction of new Fine Arts building



E.C. ORTIZ & CO., LLP
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Honorable William G. Holland
Auditor General
State of Illinois

and

The Board of Trustees
Eastern Illinois University

As Special Assistant Auditors for the Auditor General, we have audited the basic financial statements of Eastern Illinois University (University), and its discretely presented component units, collectively a component unit of the State of Illinois as of and for the year ended June 30, 2008, and have issued our report thereon dated April 20, 2009. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the aggregate discretely presented component units as described in our report to the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those other auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements and not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain

deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting (08-1 and 08-2).

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The University's response to the findings identified in our audit is described in the accompanying Schedule of Findings. We did not audit the University's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the Board of Trustees and the University's management, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

E.C. Ortiz & Co., LLP
April 20, 2009

**EASTERN ILLINOIS UNIVERSITY
SCHEDULE OF FINDINGS
For the Year Ended June 30, 2008**

CURRENT FINDINGS – GOVERNMENT AUDITING STANDARDS

08-1. Finding – (Inadequate control over bank reconciliations)

Eastern Illinois University (University) did not have adequate controls over bank reconciliations.

Each month, the University is reconciling six separate bank accounts: the General Fund, the Foundation account, the Payroll disbursements account, the Athletics account, the Student Refund Account, and the Money Market Account, therefore a total of 72 reconciliations are to be performed each year. During our review of the monthly bank reconciliations, we noted the following:

- Seven of 12 (58%) General Fund bank reconciliations were prepared 16 to 112 days after the month end. Three of the 7 (43%) referenced bank reconciliations were reviewed and approved 66 to 86 days after they were prepared.
- Nine of 12 (75%) Payroll Bank account reconciliations were prepared 41 to 210 days after the month end. Two of 9 (22%) referenced Payroll Bank account reconciliations were reviewed 10 and 46 days after they were prepared.
- Five of 12 (42%) Money Market Account reconciliations were prepared 44 to 67 days after the month end.
- Long outstanding checks from the General Fund and Payroll disbursement accounts were not promptly investigated and disposed. As of the June 30, 2008, there were 77 and 75 outstanding checks totaling \$11,169 and \$6,665 from the General Fund and Payroll disbursement accounts, respectively that were issued more than 6 months prior to the date of the bank statement.

Effective internal control policies require all transactions be recorded in the accounting system and bank reconciliations be performed and reviewed in a timely manner. Reconciling items should be investigated and disposed of promptly.

According to University personnel, the bank reconciliation was late due to staffing issues. The goal of the University is to investigate and clear outstanding checks beyond 6 months. They are in the process of clearing long outstanding checks.

Failure to perform and review monthly bank reconciliations in a timely manner may result in inaccurate financial statement information. Improprieties involving

**EASTERN ILLINOIS UNIVERSITY
SCHEDULE OF FINDINGS
For the Year Ended June 30, 2008**

cash accounts could also go unnoticed until the reconciliation is completed.
(Finding Code No. 08-1, 07-01, 06-1, 05-1)

Recommendation

We recommend the University establish procedures to perform and review bank account reconciliations in a timely manner. In addition, long outstanding checks should be reviewed and disposed of promptly.

University Response

Bank reconciliations are an important part of the University's system of internal controls. Staffing issues have been corrected and all reconciliations were current at June 30, 2008. We will continue to work on addressing reconciling items in a timely manner.

**EASTERN ILLINOIS UNIVERSITY
SCHEDULE OF FINDINGS
For the Year Ended June 30, 2008**

08-2. Finding (Draft financial statements not completed timely)

Eastern Illinois University (University) did not provide the auditors with complete and accurate financial statements on a timely basis.

During the audit entrance conference on May 12, 2008 a deadline for submission of the University's draft financial statements for timely completion of the financial audit was determined and agreed to by the auditors and University management. The deadline for delivery of the complete draft financial statements to the auditors for fiscal year 2008 was October 27, 2008. Although an initial draft was provided to the auditors on October 27, 2008, the draft was incomplete and had not been fully reviewed by all parties involved with the preparation and approval of the financial statements. Changes and adjustments to the initial draft were occurring as late as February 11, 2009, 107 days after the agreed upon deadline, when the following late adjustments were being made to the University financial statements and note disclosures:

- a reclassification adjustment was made to the gain or loss on the disposal of capital assets and the related cash flows totaling \$275,687, and
- the final Eastern Illinois University Foundation financial statements were not completed for inclusion in the University financial statements.

The Fiscal Control and Internal Auditing Act, 30 ILCS 10/3001 requires all State agencies to establish and maintain a system, or systems, of internal fiscal and administrative controls, which shall provide assurance that revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources. In addition, a good system of internal control ensures that financial statements are prepared timely to benefit users of those financial statements.

According to University management, the reclassification was due to a request from the Illinois Office of the Comptroller to move certain transactions between revenue lines on the Statement of Revenues, Expenses and Changes in Net Assets. The Foundation financial statements were late due to a delay in obtaining an appraisal of farmland as of June 30, 2006 used in the implementation of GASB Statement No. 52.

Submitting incomplete and unadjusted draft financial statements delays completion of the audit process and the timely release of the University's financial report to users. (Finding Code No. 08-2)

EASTERN ILLINOIS UNIVERSITY
SCHEDULE OF FINDINGS
For the Year Ended June 30, 2008

Recommendation

We recommend the University take a comprehensive look at the entire financial reporting process and make changes needed to timely prepare financial reports for auditors and other users.

University Response

The University concurs with the auditor's statement that the timely preparation and release of financial statements is important.

The University prepared a draft of its financial statements and submitted it on a timely basis to the auditors. The University is also required to submit, on forms provided, its financial statements to the Illinois Comptroller's Office. When submitted, both sets of financial statements were in agreement. However, the Comptroller's Office asked the University to make adjustments to reclassify certain transactions related to the gain or loss on the disposal of capital assets to be consistent with the way they wanted to present these transactions within the State's financial statements. We agreed to make the changes requested by the Comptroller's Office even though we considered the change to be immaterial to the University's financial statements.

The delay in the completion of the Foundation's financial statements was caused when the auditors' changed their minds and requested additional information to support the implementation of GASB 52. We had previously asked the auditors and provided to them, information that they initially believed was satisfactory for issuing their opinion.

When working with professionals and the complex requirements of accounting literature, we will have differences of opinion that may require changes to the financial statements. We find it unreasonable to say that we will never make an adjustment to our financial statements because a deadline has passed. We strive to be accurate and timely in our preparation of the financial statements but we can not control all issues that may arise.